Inc.
The Magazine for Growing Companies

Go Ahead, Be Evil

Do you need a social mission? Hell, no. *Profit* is the mission
By Kevin O'Leary

Kevin O'Leary is wrong
By Adam Lowry

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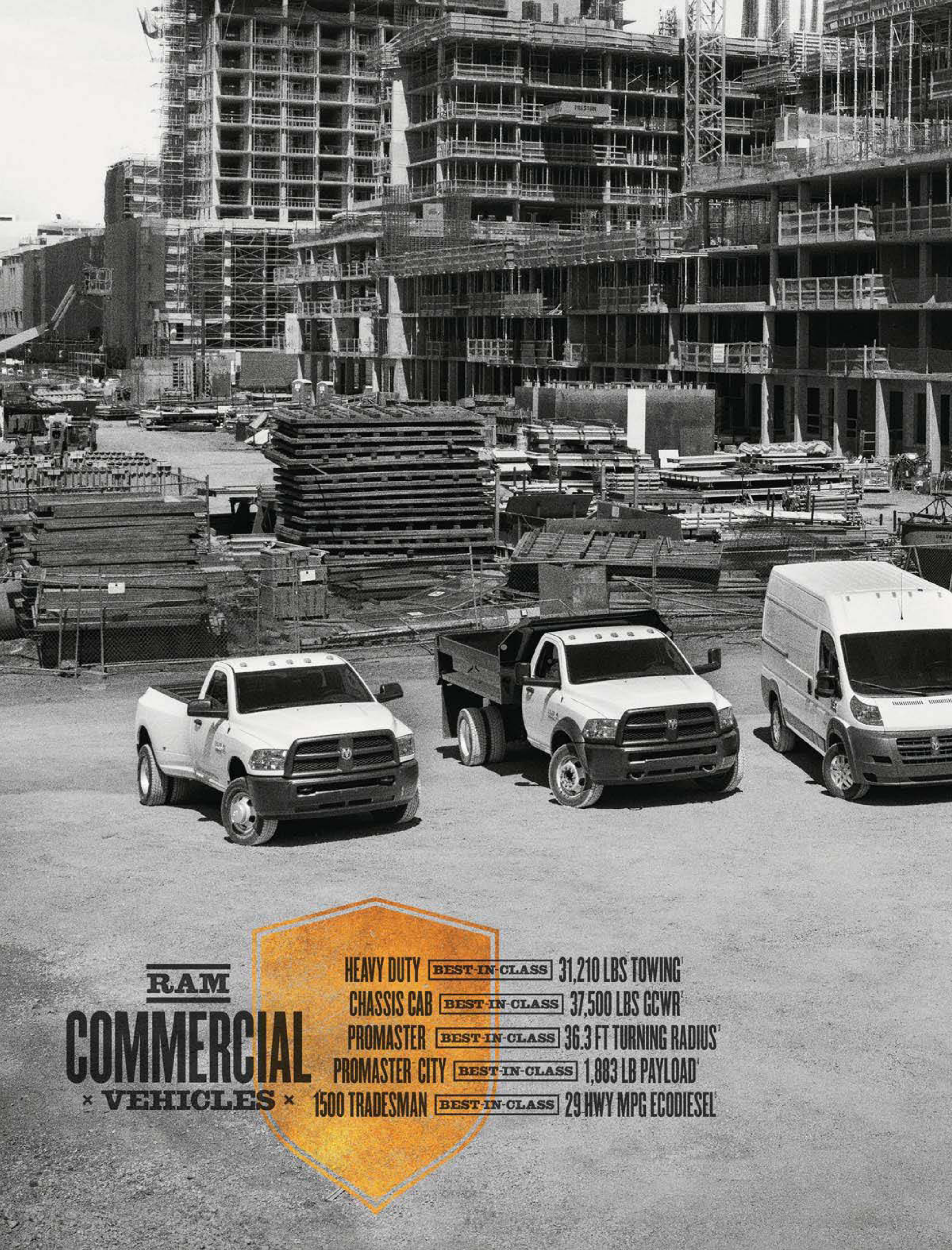
MR. WONDERFUL
"You have to be willing to fire your mother."
– *Shark Tank*'s Kevin O'Leary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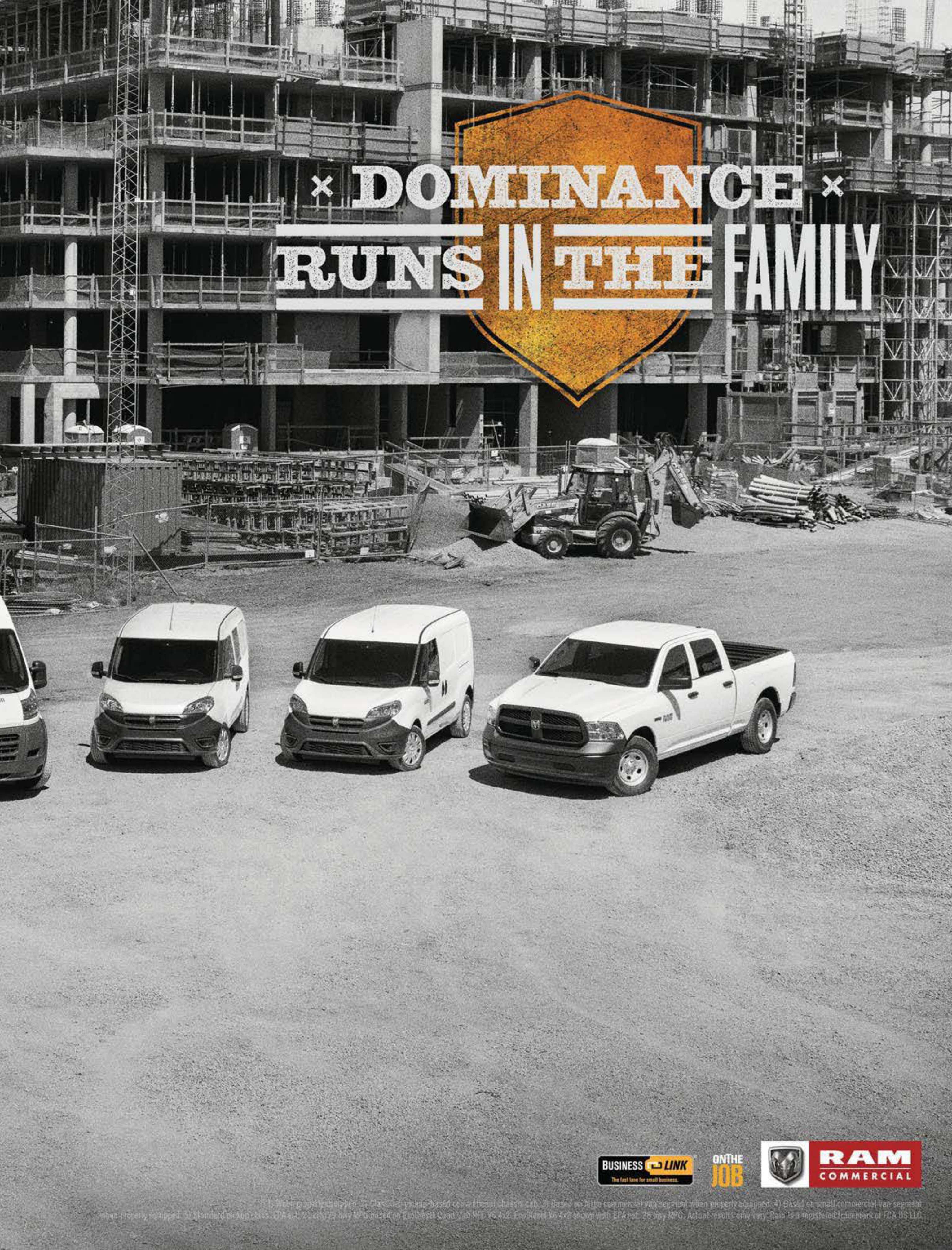
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BUSINESS LINK
The fast lane for small business.
ON THE JOB
RAM
COMMERCIAL

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"Our specialty is providing sometimes common services in real crappy places."

—ROB WHITFIELD, COO of Patriot Group, a military and intelligence mission-support contractor

ARMED AND READY This Patriot Group analyst gets the same weapons training as contractors in the field.

PHOTOGRAPH BY **CHRISTAAN FELBER**

CHEER GEAR
Rebel Athletic competes with a more established rival by customizing uniforms.

Features

ON THE COVER KEVIN O'LEARY, CO-HOST OF ABC'S *SHARK TANK*, PHOTOGRAPHED IN MIAMI BY MILLER MOBLEY

THIS PAGE: DUSTIN SNIPES. COVER: GROOMING: DAVID SHANNON FOR FORD; STYLING: ANNIE GOLDMAN FOR FORD

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CLOCKWISE FROM TOP: MATT EDGE; BARTHOLOMEW COOKE; ERIN PATRICE O'BRIEN/GETTY; MARK ALLEN MILLER; TERRY A. RATZLAFF


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4 Habits of Truly Resilient People

Temptation is everywhere. But Inc.com columnist Jeff Haden explains how great leaders keep bouncing back

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1

DON'T COMPLAIN. Whining helps no one—least of all you. Channel that energy into making things better.

2

CELEBRATE OTHERS' SUCCESSES. The success of colleagues does not undermine your own. Cheer them on.

3

FOCUS ON LONG-TERM GOALS. The day-to-day will get very tough at times. Remember the big picture.

4

BE THANKFUL. Gratitude is powerful. Always keep your good fortune in mind.

TOP VIDEOS

INC.COM/PLAYBOOK

Susan Lyne

Founder and president of BBG Ventures

"The boys' club that has existed in Silicon Valley is not going to produce the best results going forward."

INC.COM/INCLIVE

Kip Tindell

CEO of the Container Store

"It takes a hell of a lot of self-confidence to become an entrepreneur."

INC.COM/PLAYBOOK

Scooter Braun

Founder of SB Projects and Justin Bieber's manager

"It's not about where you're going. It's about every day on your way there."

"If you don't have fun and exude joy, it's going to be really hard to get customers to buy from you."

—Robert Herjavec, CEO of Herjavec Group and co-star of *Shark Tank* inc.com/inclive

CLOCKWISE FROM LEFT: GETTY; JOYZEL ACEVEDO; COURTESY CNBC; NUSHMIA KHAN. ILLUSTRATION: MICHAEL FRITH

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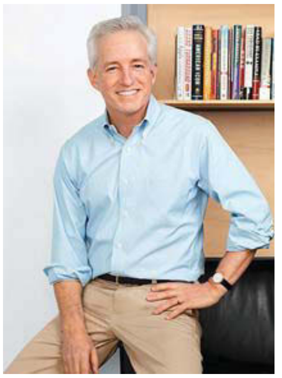

WELCOME

SO "EVIL" YOU'RE GOOD

S**HOULD YOUR BUSINESS** strive to be a force for good? Or is the only point of being in business to make a profit?

Tough question. Without giving away too much of this month's cover story (see page 52), I can tell you that *Shark Tank*'s professional curmudgeon, Kevin O'Leary, favors the "make a profit" side. Adam Lowry, the co-founder of eco-conscious Method Products, believes in the "force for good" position. Both entrepreneurs claim the moral high ground: O'Leary says that CEOs have a solemn duty to investors to maximize profits, while Lowry asserts that capitalism is not a license to pollute the planet or exploit workers.

Each also claims that his way is the surer path to success. Entrepreneurship is too hard, O'Leary says, to survive distractions like a social mission. Lowry, on the other hand, points out that customers want to buy from—and top talent wants to work for—companies whose values they identify with.

There's one thing these theoretical arguments leave out, though, which is ... well, you. *Inc.*'s founder Bernie Goldhirsh famously wrote that entrepreneurship is an art form—as much an act of self-expression as writing a novel or composing a symphony. Duty is well and good, and so, of course, is maximizing your odds of success. But to really do the latter, you need a goal that drives you. Not the words on the company's mission statement, but that nuclear bit of grit, known only to you, that gets you through the dark hours of the entrepreneurial soul.

Maybe, in the core of your being, you really do want save the world. If so, go for it: Altruism hasn't held back Method, Toms, Warby Parker, Whole Foods Market, or the Container Store, among many others. But to paraphrase Mae West, goodness isn't the only thing that works. Maybe you need to prove something to the doubters, or your ex-spouse. Maybe you just hate to lose. So be it: Determination never hurt any entrepreneur, even one with the noblest social mission.

All kinds of personal missions are on display in this issue of *Inc*. Greg Craddock built Patriot Group partly out of patriotism, partly to regain that hyperfocused sense of purpose he had as an Army Ranger (page 86). Karen Noseff Aldridge wants to break a rival's suffocating hold on cheerleader gear (page 66); it's no accident her company is called Rebel Athletic. And the founders who built Pharmapacks into an Inc. 5000 winner are out to prove not much more than that five guys from Queens and Long Island with street smarts and a cool algorithm can win the free-for-all known as Amazon Marketplace (page 34).

None of these entrepreneurs are campaigning for sainthood. And yet they've all created jobs and unleashed innovations that make life better for customers. That's the thing about free enterprise. If you do it right, you save the world in spite of yourself.

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RIDING HIGH

AT HOME ON THE RANGE

When Laurel & Wolf founder Leura Fine wants a break from the wild ride of startup life, she hops onto the nearest horse

Photographs by CLARKE TOLTON

BACK IN THE SADDLE
Leura Fine—and Amigo—in action at the Westside Riding School, located in Los Angeles County's Will Rogers State Historic Park.

HORSING AROUND
From top: An observant friend; saddlery at rest; Fine and Amigo share a quiet moment.

"Riding is the only time I am fully able to shut my brain down."

—LEURA FINE, founder, Laurel & Wolf

WHEN SHE WAS 6, Leura Fine's family in Alabama got a horse and named it Cactus. It was more than a child's wish for a pony coming true: Fine's mother grew up with horses, and two of her cousins were rodeo queens. Fine excelled as an equestrian too, taking lessons in Western and English techniques, eventually learning to ride cross-country style.

"You're going down a ditch, and then you're going through water, and you're leaping over bales of hay," explains Fine, who's now 29 and the founder and CEO of the virtual interior-design company Laurel & Wolf—which has raised $25.5 million, and grew from eight to 51 employees in 2015. "It's how the English cavalry used to train their soldiers."

As she grew older, though, she back-burnered her hobby—until she realized the climate and terrain in Los Angeles, where she lives now, are ideal for her old pursuit. In 2013, she took up the reins again at the Westside Riding School in Pacific Palisades.

"You go up there and they have one of the last grass polo fields left" in L.A. County, says Fine.

"It's just such a beautiful, peaceful place," she adds. She tries to ride a favorite horse there once a week. It's provided a necessary opportunity to focus on something other than her company, which she founded in 2014.

"Horses are so sensitive to your energy and particularly to your touch," Fine says. "When I'm distracted, they totally sense it. There's an interesting connection, and you really just have to be present."

Even off the horse, Fine projects an equestrian air: On a recent trip to the dressage shop LA Saddlery, she wore a Hermès bracelet with a massive pony clasp and Chanel-logo earrings reminiscent of horseshoes. Her return to riding has, however, seen some—ahem—hurdles.

"When I first started jumping again, my very lovely horse that I train on threw me," Fine says. It was a valuable lesson. "Being thrown off a horse and then getting back on—there's no greater metaphor for how to conquer life," she says. "Especially in a startup." —SHEILA MARIKAR


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Launch

Start.
Scale.
Thrive.

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CRAFTING A PARENTAL LEAVE POLICY THAT FITS YOUR FIRM

PG. 32

HOW RADIO FLYER'S CEO GOT THE 100-YEAR-OLD COMPANY ROLLING AGAIN

"We've got the Colombian cocaine of algorithms."

—BRAD TRAMUNTI, co-founder and CMO of online retailer Pharmapacks

PG. 34

OUTSIDE THE BOX Some of the roughly 25,000 personal-care products that Pharmapacks sells on Amazon and other online platforms.

PROP STYLING: GRACE HARTNETT

PHOTOGRAPH BY **ANDREW B. MYERS**

DADDY'S HOME

More companies are offering new parents paid time off. With smart planning, a parental leave policy won't break the bank

DAVID MINTON, the co-founder of DesignHammer, a 10-person, Durham, North Carolina, web-design company with nearly $1 million in sales, figured that if he could mostly stay home for two weeks after the birth of his second child without the company falling apart, the other new dads at the office could too. Today, he offers two weeks paid leave for new fathers and eight weeks for moms. He thinks his decision will help the company's bottom line by retaining staff. "The employees that we have have a whole lot of opportunities," he says. "How much you pay them isn't 100 percent of the equation of whether they want to stick in the position." More companies are coming to the same conclusion. In 2015, 21 percent of employers surveyed by the Society for Human Resource Management offered paid maternity leave, and 17 percent offered paid paternity leave, up from 12 percent for both in 2014. Offering paid parental leave can pay dividends: A 2011 report by the U.S. Census Bureau found that women who got paid leave were more likely to return to work within five months than those who didn't receive or use the benefit. These founders can show you how to create a parental leave policy that works for you and your employees.

DO THE MATH

When structuring your parental leave plan, don't consider just what you can afford to offer. Also take into account what it would cost to replace an employee who might quit for a better leave policy elsewhere. Molly Moon Neitzel, founder of Molly Moon's Homemade Ice Cream, a chain of ice cream shops in Seattle with $5.4 million in 2015 sales, used a generally accepted average cost for replacing an employee ($12,000) to set her parental leave terms. She offers 12 weeks of fully paid leave, which costs a little bit less than replacing one of her highest-earning workers. She also offers the leave "because it's the really, really right thing to do," she says. By spreading around absent parents' duties, she avoids the cost of hiring a temporary replacement.

BE FLEXIBLE

Yesware, a Boston-based sales-software company with about $10 million in 2015 sales, offers 12 weeks of paid parental leave to its 75 employees. Matthew Bellows, a co-founder and the CEO, concedes that the policy can hurt the bottom line in the short run, but he says that being flexible can minimize the damage. Recently, an employee asked to take six weeks off after giving birth and save the other six weeks for later. "We looked at it," says Bellows. "It turned out to be slightly better for us if she wasn't away [for 12 weeks straight]. It also meant something to her that we could accommodate her schedule."

USE EXISTING SUBSIDIES

States including California, New Jersey, and Rhode Island have programs that provide financial support to new parents to take time off. In California, the state pays about half an employee's salary (with limits) for up to eight weeks for mothers and six weeks for dads. New York offers qualifying new moms limited disability pay for up to 26 weeks as long as a doctor certifies that they are unable to work. For David Bolotsky, the founder and CEO of UncommonGoods, an online crafts marketplace with 2015 revenue of more than $20 million, programs and subsidies like these are a crucial piece of the paid-leave puzzle. Along with the New York State plan, the Brooklyn-based company uses a private insurance plan that pays new mothers up to $1,000 a week for 26 weeks. The company offers two weeks of paid leave for dads and adoptive moms and four weeks for birth moms. Bolotsky suggests that you look into "layering some payment on top of whatever government support is out there."
—SAKI KNAFO

The Jargonator

Swatting the buzzwords of business

By **BEN SCHOTT**

DATA WRANGLING / • noun.
The "crucial first steps in preparing data for broader analysis." Data wrangling involves "discovering, structuring, cleaning, enriching, validating, and publishing." Or, as we used to call it, research.
Source: IT Pro Portal

CRISIS / • noun.
As Goldman Sachs closes its BRICs investment fund, a new geographical acronym emerges for "the growing list of nations dissatisfied with the current world order"—China, Russia, India, South America, Iran, and South Africa. C'mon, guys, really? CRISIS?
Source: The Market Oracle

SPREAD, TOP RIGHT: MARTIN BARRAUD/GETTY. ILLUSTRATIONS: POLLY BECKER (3)

Illustration by RICHARD MIA

NORM'S TAKE
MAJOR LIFE EVENTS REVEAL COMPANY CULTURE

WHENEVER your business is disrupted by a major event in the life of an employee—such as the birth of a child—don't make the mistake of treating it as a problem and a headache. Instead, recognize it as a chance for the company to shine. You don't get a lot of those opportunities, and the triggering event isn't always a happy one. It could be a death in the family or a long-term illness. Your response to such circumstances will have a huge impact on your company's culture. Everyone will view your actions as a measure of how much you care about your people.

Of course, what you do will depend partly on the size of your business and partly on the particular circumstances of the employee. The general rule is: Come up with something outside the norm. Suppose, for example, an employee's wife gives birth. Maybe, in addition to paternity leave, you figure out how, afterward, the employee can work from home one day a week, or do his 40 hours in four days, rather than five.

Or if the mother is one of your employees, think about how you can help her out after her maternity leave. Six weeks isn't very long, after all. Perhaps, on her return, you let her work just three days a week at her full salary for a couple of months and ask the rest of the people to pick up the slack. You can frame it as their gift to her and her newborn.

To be sure, the employees' participation has to be voluntary. It's not a gift if people are required to do it. Most will probably be happy to chip in. If they aren't, you'll know something is amiss with your culture, and you'll need to address it. But chances are the experience will bind people closer together. That can't help but be good for your business.

Startup wisdom from senior contributing editor and veteran entrepreneur Norm Brodsky. Please send queries to asknorm@inc.com.

JIUJITSU MOVE / • noun. Marissa Mayer's technique of distracting from problems with inscrutable announcements. It's the verbal version of Yahoo's confusing, loss-camouflaging accounting system. As if business needed to be any more kung-fusing. *Source:* The Wall Street Journal

BRANDALISM / • noun. The U.N. climate conference was rocked by 600 satirical posters attacking brands supposedly guilty of "corporate greenwashing." Brandalism is a movement dedicated to "a revolt against corporate control of the visual realm." Check it out on Twitter! *Source: Brandalism.org.uk*

COMFORT CANYON / • noun. Airbus's pretentious description of the ever-increasing disparity between flying coach and business. Given the legroom in economy, I can't help noticing that it's also an anagram of "man cry foot con." *Source: Flightglobal*

Plan to Retire? First, Ask Yourself These Big Questions

AS A SELF-EMPLOYED registered financial consultant, Mar Sue Durrbeck is in a business from which "you don't have to retire—ever," she says. But, now in her 70s, Durrbeck is ready to spend more time visiting her children, far from the nasty Chicago-area winters. While she has ample experience helping others plan their retirement, when she started contemplating her own, she faced some tough questions—ones that everyone should face sooner rather than later. The most fundamental one involves how much money you'll need. It's a crucial yet often neglected question; more than a quarter of small-business owners don't think they have enough savings to fund a comfortable retirement. A good starter calculation: Figure out what your annual expenses will be once you retire, minus Social Security and pensions, and stash away 25 times that amount.

Also important are the more philosophical questions, Durrbeck says—for example, "What will I do that is meaningful?" Answering these questions now is the best first step to getting ready for your long-term financial future.

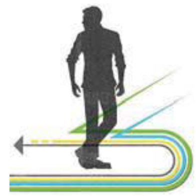
What's your ideal vision?

How do you see spending your time so that your mind, body, and spirit are engaged? Since you may be spending 30 years or more in retirement, write down what you'd like to do. Maybe it involves volunteering and part-time work; maybe it involves travel or moving to a second home or another activity that will require a significant cash reserve. Whatever your vision, put a price tag on it *now*, so that you can afford to do what you want, in the style you would like.

Do you want to take a plunge—or gradually wade in?

Look around at others who have retired and ask yourself whom you envy. Maybe you're ready to stop working entirely—though going cold turkey doesn't work for a lot of people, according to Mitch Anthony, a coach to financial advisers (including Durrbeck) and the author of *The New Retirementality: Planning Your Life and Living Your Dreams at Any Age You Want.* Many new retirees get bored sitting around the house—which can be a recipe for marital annoyance, especially if you or your spouse is used to being alone during the day.

Going part-time is a good way to make a gradual transition. Like many small-business owners, Durrbeck isn't retiring all at once, but she is starting to shift more operations to her business's buyer, another experienced adviser who "shares my values," she says.



What's your backup plan?

Like many retirees, Durrbeck is concerned about what will happen if she gets sick or disabled. She and her husband both carry long-term-care insurance, for expenses including nursing-home or in-home care. If you retire before 65 (the usual age of Medicare eligibility), it gets complicated: Will you need to buy medical coverage, or to "self-insure" using your savings? If so, you'll probably need at least $200,000 to cover health care expenses.

What do you want to be your legacy?

An estate-planning lawyer can always help you with leaving money to heirs or favorite causes. But first you need to figure out the greater, less financial contribution you want to make to your community. Durrbeck, for example, wanted to leave a business that treats its clients with integrity. She spent her career building her client relationships, and so looked long and hard for a buyer who would maintain the reputation of her business.

To kick off your retirement planning, you can figure out this legacy right now. As Durrbeck says, "Our memories will have very little to do with the money we made—but rather with the kind of life we have lived."

—

JOHN F. WASIK, *a personal finance journalist, has authored 15 books, including* The Debt-Free Degree *and* Keynes's Way to Wealth.

MARK ALLEN MILLER (4)


BECAUSE SOMEDAY
All my plans will have strings attached.
We can help you make that old 401(k) a part of your complete retirement plan.
• We'll help you build a plan that can adapt as your life—and the markets—change
• You'll get a consolidated view of how your investments are really doing
• You'll have access to a wide variety of Fidelity and non-Fidelity investment options, and the people who can help you choose
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The Right Recipe for a Startup

Drinks With Amanda Hesser

BY JON FINE Photograph by KRISTA SCHLUETER

BEYOND THE KITCHEN
Amanda Hesser followed the unusual career path of chef, writer, and entrepreneur.

WHEN AMANDA HESSER, co-founder of the e-commerce and community site Food52, was a young girl, she learned just how hard it could be to own a business. Her parents had bought a car dealership in their hometown of Scranton, Pennsylvania, and kept it going while the oil shocks of the 1970s made the going rough. “They had no money,” says Hesser. “They risked everything for it.”

Then, when she was 8, the dealership burned to the ground. “At the time, it was one of the biggest fires [ever] in Scranton,” she recalls. “The problem with a fire in a car dealership,” she says dryly, “is that there’s a lot of gasoline.”

The next day, with the stench of burnt tires hanging in the air, her dad set up a trailer across the street from the smoldering building so he could sell the cars that hadn’t been destroyed. “He wanted to let people know this wasn’t going to get him down,” Hesser says.

If resilience is the hallmark of a founder, Hesser has clearly inherited her father’s trait. Throughout her career, she’s taken leaps—baker and chef to top food writer to—well into her 30s—entrepreneur. She launched her second startup, Food52, in late 2009, with co-founder Merrill Stubbs. Originally an online destination for home cooks to connect and share recipes, it’s since evolved into a hub for the culinary-inclined—from salami subscriptions to shellfish

forks to a wedding registry. The site made its name early on by hosting a year's worth of weekly recipe contests—hence the name. The winners were ultimately published in a crowdsourced cookbook.

Today Food52 has—wait for it—52 employees (and no, that's not by design). Company revenue hit $6.2 million in 2014, and its three-year revenue growth of 890 percent only narrowly missed making last year's Inc. 500 (it clocked in at No. 521). Up next: the app (Not)Recipes, intended for more experienced cooks, through which users will upload food pics onto a platform that makes them searchable by ingredients listed in users' captions.

Though Hesser seems like she was always destined to be an entrepreneur, she first won notice as a writer. After graduating from college, keenly interested in food, she decided to spend time studying cooking in Europe. But she was a broke student, her family's means were modest, and, she recalls, back then "no one gave scholarships" for such things. A problem? Not for her. "I just created a plan for a scholarship, found a culinary organization"—Les Dames d'Escoffier—"and pitched them on funding me to go to Europe." It worked. There she learned baking in Rome at Forno Campo de' Fiori and in Paris at the landmark boulangerie Le Moulin de la Vierge. In France, she worked with the noted food writer Anne Willan, a contemporary of Julia Child's and the founder of the prestigious cooking school Ecole de Cuisine La Varenne. When she was 27, she published her first book, about Willan's gardener.

A decade or so after her time in Europe, Hesser was comfortably ensconced in New York City, where she built an enviable career as a top food writer at *The New York Times* and a *New York Times Magazine* columnist with several books under her belt. Then, in 2008, she decided to take a buyout from the *Times* to scratch an old itch. Or, as she told Mediabistro at the time, "I figured, well, my husband and I have a mortgage to pay, kids to feed, and the economy is tanking—it's the perfect time to start a company!"

Hesser had always had an interest in recording life and its various histories, which led her to her first startup idea. "My first four books iterated on this," she explains. "*The Cook and the Gardener* tracks a year in a garden. *Cooking for Mr. Latte* follows the timeline of a courtship. *Eat, Memory*—well, enough said." At the time, Facebook, Twitter, and Flickr were just starting to explode. She believed there was a need for a single platform that could pull together people's fragmented digital histories. She enlisted two technical co-founders to build Seawinkle, a bid to "distill your digital life into a

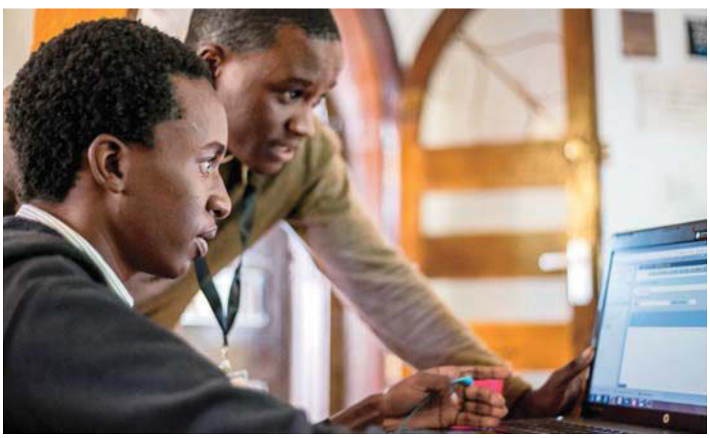
“Founders often say, ‘I spend my days putting out fires.’ They’re just not ones that are quite that big.”

visual format.” But ultimately, Hesser and her co-founders decided Seawinkle wasn’t seaworthy. Unsuccessful meetings with potential investors “forced us to ask ourselves hard questions: whether this was a business, and whether we were the right people to build it.” They weren’t. So they shook hands and walked away from the project.

But she had another idea, this one rooted in what she knew best. In September 2009, she and Stubbs, whom she had met and befriended while working on a recipe book for the *Times*—launched Food52. Asked about choosing a co-founder who shares many of her editorial and culinary skills—sometimes a dangerous gambit—Hesser says she’s guided by the belief that “personal affinity matters way more than skill sets.”

The two quickly discovered how important that affinity would be. In the summer of 2010, the co-founders were dining at Brooklyn’s Roberta’s, “crying over our pizza.” They were running out of cash, had yet to pay themselves, and couldn’t get investors to buy in on their idea or them. “We were like, ‘Do we have to stop this? Are we going to shut this down?’ ” Hesser recalls. But they didn’t. How did they get through it? “Grit,” Hesser shoots back. “You have to have the ‘this can’t fail’ feeling.” They bought themselves time by borrowing money from Stubbs’s mom and Hesser’s husband (both have been paid back, Hesser reports). Funding rounds totaling $9 million followed, from a range of investors that included Gary Vaynerchuk and Food Network parent company Scripps Networks Interactive.

Hesser’s path has taken her a long way from Scranton. Her father passed away more than 20 years ago, and today, her older brother runs the family company, Tom Hesser Motors, which has grown into several car dealerships. But what she saw growing up stays with her still. “Founders often say—myself included—‘I spend my days putting out fires,’ ” she says. “They’re just not ones that are quite that big.”



Building a Bridge to Global Opportunity

Andela trains, and then employs, Africa's young programmers

TWO YEARS AGO, 26-year-old Eugene Mutai was unable to afford a university education, so the Kenyan worked low-paying jobs—including farming and driving a *boda-boda*, or motorcycle taxi—while teaching himself to write code. Then, in 2015, he qualified for a fellowship with Andela, a startup that provides talented people from all over the continent with top-notch computer-science instruction. Now Mutai is studying more than 20 skills, from version control to project management, while earning the Kenyan equivalent of a middle-class salary. After a year of training, he'll be matched with a U.S. or international company in need of a highly skilled tech worker. "What's most important to me is the opportunity to reach for higher and higher goals," he says.

"There's just such need on both sides," says Jeremy Johnson, one of Andela's four co-founders. "Africa has the largest pool of untapped brainpower in the world. Companies are struggling to find talent, let alone great talent." Andela, which launched in 2014, capitalizes on the economic disparity between Africa and the West while stepping into the skills gap that leaves many Western employers desperate for programmers. Andela's students, called fellows, undergo an intense six-month training period at one of two schools, in Lagos, Nigeria, and Nairobi, Kenya. They continue studying for three and a half years while working remotely for companies in the U.S., Europe, and Africa. The arrangement pays the fellows, covers the cost of their training, and expands Andela.

THE NEXT GEN OF TECH TALENT

Eugene Mutai (second from top) and other Andela fellows, from Nigeria and Kenya, pursue new tech skills.

Andela counts some two dozen companies as partners, including Microsoft, Facebook, and Udacity, and 50 fellows are working with them. The company has reportedly received more than $10 million from investors, including Blake Mycoskie's Toms Social Entrepreneurship Fund, Chris Hughes (formerly of Facebook), Steve Case (formerly of AOL), and the Omidyar Network. There are 170 fellows so far, and Andela adds about 10 more every month. "We want to train 100,000 young people across Africa over the next 10 years," Johnson says. He'll have no shortage of candidates; he says Andela has received more than 15,000 applications. "No part of the [application] process was easy," Mutai says. "But as I went through each step, it helped reinforce that I'd found the right place for me." —ETELKA LEHOCZKY

FROM TOP: MOHINI UFELI; ROBERT OPIYO; CHIDI "LEX ASH" ASHIMOLE; MOHINI UFELI


IN A GROWING COMPANY, YOU WORK 9–5 AND 5–9.
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INC. 5000 INSIGHTS

How One Iconic American Brand Got Back on a Roll

WHEN ROBERT PASIN JOINED Radio Flyer, the iconic red wagon maker founded by his grandfather in 1917, the company wasn't growing, and wasn't profitable. Pasin was named CEO in 1997 and shifted Radio Flyer's focus from manufacturing to product development. The company has since been on the Inc. 5000 four times. In 2015, sales topped $100 million. Pasin explains how he got the company rolling again. –SHEILA MARIKAR

Photograph by PETER HOFFMAN

PUT FEET ON THE GROUND

Shortly after Pasin became CEO, he recognized one of Radio Flyer's greatest weaknesses: It had no system to see how customers were using its products. The company began working with market research firms to find out. Product designers were sent to homes, zoos, and playgrounds around the country to see firsthand the ways kids were riding the wagons, tricycles, and other items Radio Flyer makes, and, in 2011, a Play Lab with a "test track sidewalk" was installed at the company's headquarters in Chicago. "We'll videotape how they ride the product," Pasin says. "We'll say to Mom, 'OK, take this wagon and put it into your trunk,' and then we watch: Is it clumsy? Is it awkward? We spend a huge amount of time observing the ergonomics of our products because people are riding them." Observation has paid off: While watching toddlers ride their toys, Pasin's team came up with the idea for a scooter with a wider deck that would offer a less wobbly ride. "We went from not having a product in this category to becoming the No. 1 brand and product in scooters for little kids," he says.

TAKEAWAY Design smart products by first understanding how they work in the real world.

OVERCOME COMPLACENCY

Despite its history, Radio Flyer was going nowhere in the late '90s. "We had this great brand that everybody had been raised with and that was still well known, but the company wasn't growing and we had no product-development capabilities," Pasin says. Competitors with plastic wagons were cutting into the company's bottom line, and Radio Flyer had a significant amount of debt. Many employees had been with the wagon manufacturer for decades, and many were wedded to the old ways of operating. Through early retirements and layoffs, Pasin eventually reduced head count by 65. He shut down Radio Flyer's in-house factory in 2004 to instead focus on design and development. He made it mandatory for employees to set goals that mesh with the company's mission. (One asked if there was any additional pay for setting these goals. That person no longer works at Radio Flyer.) "The culture was too far gone" when he became CEO, says Pasin. "We were able to change the culture by changing some of the people."

TAKEAWAY Overhauling your staff may be necessary to get out of an institutional rut.

BUILD A CULTURE DELIBERATELY

In 1997, when Pasin made his first hire, Radio Flyer had no hiring process or HR function. That continued until around 2004, when he began looking at lists of best places to work and set out to get on those roundups by building what he calls "a culture of excellence." This includes an onboarding and assimilation process for new employees that encourages them to build internal relationships, and internal classes to grow talent (called Wagon U). Communicating was key. "Before," says Pasin, "we never had company meetings unless we were announcing bad news." He also implemented an internship program to entice all-star students in engineering, industrial design, and other fields to join the team. "That's a significant feeder of talent into our company," Pasin says. Radio Flyer offers nice perks: flex time, parties for employees and their families, a wellness reimbursement program, an exercise room, and a garden with a walking path at Chicago headquarters. Last year, Crain's Business Chicago ranked the company the seventh-best place to work in the city, calling out its employee incentives and philanthropic efforts: Radio Flyer donates thousands of wagons to local and national charities.

TAKEAWAY Leaving your company culture to chance guarantees stagnation.

RADIO FLYER
Robert Pasin's first job was working on the company's packing line. Years later, he realized early in his tenure as CEO that manufacturing wasn't the company's ticket to growth.

No. 4,975
2015 INC. 5000 RANK

44%
3-YEAR GROWTH*

$110.7M
2014 REVENUE

1917
FOUNDED

92
EMPLOYEES

-25
CHANGE IN NUMBER OF EMPLOYEES*

** From 2011 through 2014.*


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So you can own it.
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INTERNET OF THINGS
Thanks to Amazon and other platforms, Pharmapacks is building an empire by selling more than 25,000 quotidian products—including those seen here—online.

So you never thought selling tens of thousands of everyday, low-margin products online would make a great business and a great story? Neither did the guys behind Pharmapacks. Until they did it

The Stealthy Sales Kings of Amazon

BY *Burt Helm*
ADDITIONAL REPORTING BY WILL YAKOWICZ

PHOTOGRAPH BY ANDREW B. MYERS

TO SHOW OFF the secret behind Pharmapacks, his $70 million retail business, Andrew Vagenas picked up an EOS lip balm and tossed it to his buddy Brad Tramunti.

"Watch," Vagenas said. "He's like a special kid."

There is nothing about Tramunti that makes you think: lip-balm guy. He's 33 years old and hefty, with a two-day scruff and a faded T-shirt wrapped around his torso. But he held the lip balm in his paw carefully, inspecting its lollipop-purple-swirl case like a savant.

"This is a new flavor," he said. "Just came out. Blackberry nectar." He took it to his desk and brought up its Amazon.com product page. He checked its weight—0.25 ounce. He pursed his lips and calculated the shipping cost in his head: "$1.89," he muttered. He looked at its Amazon sales rank: 54,000. He brought up a page with suppliers' prices.

"We get this wholesale for $2.23," he said, smiling. "That, plus shipping, plus our margin? We'll be in the number-one spot." That meant when a shopper clicked Add to Cart on Amazon, Pharmapacks would get the sale.

Vagenas grinned. Then he tossed Tramunti a box of Vitamin Friends Iron Diet Supplement.

"He just gave me a crazy product right now," Tramunti said. He pointed to his screen: The vitamins already had 201 Amazon reviews. "If we can get this for under 10 bucks, it's a home run."

"We're getting it for 11 bucks," Vagenas said.

"OK, it's a double," he shot back. "But we're going to be number one on this product—and it's ranked 1,451 in all of personal care, number two in vitamins. This is crazy! This is bonkers!" Whatever you want to call it, within hours, Pharmapacks would be the number-one seller on Amazon for both of those products—a ranking it would hold for weeks.

"He's my special boy," beamed Vagenas.

The next time you buy some humdrum product on Amazon, pause for a moment and check the Other Sellers listed on the right side of the page. That lip balm? Thirteen vendors offer it. Those vitamins? Twenty. As you click and shop, a battle rages in that little box, fought every day by entrepreneurs like Vagenas and Tramunti on practically every one of Amazon's 410 million product pages.

This is the Amazon Marketplace, where anybody can sell just about anything right alongside Amazon's own wares. Unlike eBay, where each vendor maintains a separate listings page, Amazon tidily groups its Marketplace sellers by item, hiding away the inferior offers, to showcase the best deals up front. (In seller parlance, landing the number-one spot is called "getting the buy box.") What looks so clean on your screen obscures the messy and massive jungle of the Marketplace: There are now more than two million sellers on Amazon. While the Seattle-based giant still sells the most popular items on the site itself, Marketplace sellers now ship nearly half of the products—about two billion items each year, all told—and those sales are growing twice as fast as Amazon's, according to the consultancy ChannelAdvisor. The Marketplace started in 2000 selling used books. In 2016, it's a retail phenomenon as significant as any in the past 50 years—together these sellers ring up what ChannelAdvisor estimates to be

Some of the savviest minds in retail can be found in a **nondescript warehouse in Queens.**

THE NEW GUY
President Jonathan Webb. He brought business and operations smarts—and a crucial family connection—to Pharmapacks.

THE HEAD GUY
CEO Andrew Vagenas, who quickly grasped that selling toiletries online was a much bigger opportunity than running a pharmacy.

$132 billion in sales each year. That's more than Walmart sold in 1997. Yet we know so little about who they are.

On 2015's Inc. 500 list of America's fastest-growing private companies, something stood out about the retailers. Nearly all of them, companies that were growing by 1,000 percent or more, had websites that looked a decade out of date. Like, a homepage. Maybe a few links to products. Why? That's because, these days, such retailers don't use their own sites much. They build their businesses on platforms—eBay, Walmart.com, Overstock, and especially Amazon.

Vagenas's company, Pharmapacks, notched $31.5 million in revenue in 2014, which made its three-year growth rate 3,035 percent, good enough to earn it the 115th spot on the Inc. 500. By the end of 2015, its annual revenue was $70 million. Vagenas proudly told me the company was on track to do $140 million to $160 million in revenue in 2016, the vast majority coming from those platforms (and around 40 percent from Amazon). While other platform retailers have identified a niche opportunity and capitalized—search Amazon for horse brushes or pickle ball paddles and you can buy from two other Inc. 500 entrepreneurs—Pharmapacks sells everyday stuff found in drugstores: This upstart has succeeded by selling what most every retailer in the world, Amazon included, already offers. How?

"SEX TOYS, I'M TELLING YOU!"

Pharmapacks operates out of a low-slung warehouse in the College Point section of Queens, New York. From there, you can see the new World Trade Center, but otherwise the glitz of Manhattan might as well be a thousand miles away. Planes take off and land practically overhead. (LaGuardia Airport is across a nearby inlet.) The closest neighbor is a vast parking lot jammed with Time Warner Cable vans.

Pharmapacks' warehouse has a different name on the sign out front. Tramunti got the door, and Vagenas was waiting behind his desk, a wary look on his face. He's 34 and trim, and a slim gold chain was tucked beneath his plaid shirt.

"I Googled your picture to make sure you were actually from *Inc.*," he told me. Nothing personal, he said—but competitors always try to steal their secrets. One even sent a guy undercover to apply for a packing job, he added, staring at me for an extra beat. Then he cracked a smile.

Vagenas introduced me to his partners. Tramunti is an old buddy who grew up a few blocks from his house. Jimmy Mastronardi knows Tramunti and Vagenas from the neighborhood too. He once had a job in finance, so he's the CFO. Two other guys, Jonathan Webb and his business partner, Adam Berkowitz, joined recently. They are older, in their 40s. The younger guys busted their chops about their age. But really, everybody was busting chops about everything. Constantly.

"We're adding 4,000 makeup products, fragrances—" said Vagenas.

"And sex toys, I'm telling you!" Webb chimed in.

"Not under the Pharmapacks brand!"

"Call it Splash!"

"This guy—no shame," Vagenas sighed, a thought bubble reading, *See what I gotta deal with?* But the company was considering it. "I always joke our bread and butter is anal cream," Vagenas said. "Our top sellers are things nobody wants to buy at a store. But from there, people buy everything else."

All the while, more than a hundred workers, mostly women,

THE PRICING GUY
CMO Brad Tramunti. His fascination with figuring out precisely what to charge for products led to the insights that drive the Pharmapacks system the guys call the Master Brain.

THE FINANCE GUY
CFO James Mastronardi. He joined his old friends Vagenas and Tramunti shortly after they took their business online.

THE OTHER NEW GUY
COO Adam Berkowitz. The in-house sourcing expert knows how to get suppliers to go lower.

PHOTOGRAPHS BY JONNO RATTMAN

stood at tables in the warehouse packing products into bubble-pack containers that looked like tiny space pods—Colgate toothpaste, Pantene shampoo. A man sat, an air gun in hand, inflating the containers nonstop. As soon as one crackled into shape, he grabbed the next, 15 times a minute. *Psst-thwap. Psst-thwap.*

Originally, Vagenas and Tramunti and another friend ran a pharmacy in the South Bronx. When they started selling health and beauty products online in 2011, they thought it could make a nifty side business. They rented a little warehouse on a leafy street six blocks from Vagenas's childhood home in Whitestone, Queens, and started spending half the day there. Mastronardi soon joined them to help run the numbers. As they hammered out kinks, they discovered that selling on a platform like Amazon was totally different from running their drugstore or even a standalone website. It was also a much bigger opportunity.

You could fill a book with all the differences, of course, but the big one was: They could sell whatever they wanted, at whatever price, for whatever period of time. A marketplace vendor doesn't worry about stocking a full line of shampoos, or whether certain soaps are always on sale. If they want to sell lotion one week and hairspray the next, they can do that.

Early on, the guys decided that it would be easiest to offer whatever their suppliers had in stock. They built each online listing, and had a developer code a script that scraped the suppliers' databases to enter each product's information. When a customer ordered something, they in turn would order it from the supplier, pick it up, and then pack and ship it. That's still the model, more or less, though nowadays they order in bulk using sales projections and need three trucks and a van to pick everything up. Inventory often stays in their warehouse only for a few hours before going right back out the door. The business is less like traditional merchandising than it is like a commodities trader from a bygone era, buying and selling well-known goods and turning a profit on each transaction.

Not that any of their family and friends knew the difference, at first. Their moms' friends would call asking the Pharmapacks guys to pick stuff up for them. "I'm like, *Listen! There's a website!*" said Vagenas.

In the platform business, they learned, price is everything. Set a price too high, and Amazon buries it. Setting it too low is worse, earning the buy box and leading to thousands of orders flooding in—and a loss of money on every sale.

The conundrum fascinated Tramunti. He'd struggled with dyslexia in school, and like many with it, he'd developed an ability to memorize huge chunks of facts and figures to compensate—as he puts it, "we find workarounds." He began studying all their products, memorizing competitors' prices, watching as new items climbed the rankings. He toyed with different pricing strategies, figuring out formulas for how much they could charge for certain products and still get the sale. They started getting the buy box—and making money—more often.

Vagenas, a problem solver at heart, loved turning Tramunti's tricks into rules. He and the team had a developer code the tactics into algorithms, and baked them right into their proprietary software. Now the listings had optimal prices. Sales took off. They called the software the Master Brain.

The Pharmapacks guys love the Master Brain. They protect it the way a star pit master guards the recipe for his barbecue's rub. Or the way Pablo Escobar guarded the source of his ultrapure cocaine. Speaking

SHELF LIFE
Inventory awaiting orders at Pharmapacks' warehouse in Queens, New York.

THE NUMBERS BEHIND PHARMAPACKS

3-6%
Net profit margin per item, on average

570,000
Total shipments it makes each month

284,000
and counting: Total Amazon customer reviews it has gotten

10-15%
Commission that platforms like Amazon take from each sale

2 UPS tractor-trailers + **4** large UPS box trucks
What its shipments fill every day

Number of products it sells
25,000

50,000
Products it will sell when it moves into a larger facility this year

OPENING SPREAD: PROP STYLING: GRACE HARTNETT. THIS PAGE: JONNO RATTMAN

of which: "You ever seen the movie *Blow*?" Tramunti asked me one day. He showed me the YouTube clip of the scene in which Johnny Depp, who plays the kingpin drug smuggler in the film, has his product tested by a black-market chemist—who goes gaga over its off-the-charts purity.

"That's us. We've got the Colombian cocaine of algorithms," a proud Tramunti declared.

And as it did with Depp's character in *Blow*, life got pretty crazy once the Master Brain's pricing kicked in. Orders poured in. Sales increased sixfold in a year. Neighbors began complaining about the never-ending stream of UPS and postal trucks. They were also unhappy about the warehouse packers who, in the absence of a decent-size company cafeteria or nearby restaurants, plopped down on their lawns each day to eat lunch.

Other marketplace sellers have algorithms. There are now companies that design pricing software for platform vendors: ChannelAdvisor, WisePricer. But that's all chump stuff when you have a Master Brain. "We can make listings in seconds," Tramunti boasted. "Everybody else has to do all this hoopala hoppala."

"Our top sellers are things no one wants to buy at a store." Then those shoppers "buy everything else."

BECAUSE EVEN MOM COMPLAINS

Life as a Marketplace seller isn't all algorithms and cash. Vendors also need high customer-service ratings to get the buy box. Keeping them that way is a grind, especially when you sell almost 25,000 different products and ship 570,000 orders a month. People get emotional about personal-care products. Including Vagenas's mother, who called last summer to complain about her Coppertone suntan lotion. In July, it came with 10 percent extra. In August, it didn't.

"She was like, *You basically robbed me,*" Vagenas said. "I'm like, *Mom! It was a promo!*"

As Pharmapacks' sales mushroomed, so did the complaints. Part of this was growing pains—it took a while to figure out how to fill so many orders fast without screwing up. But complainers are a naturally occurring species in e-commerce, and Pharmapacks now employs 16 customer-service reps, who field almost 200 concerns over the phone and by email every day. They write back to all customer inquiries within 24 hours—one of the key metrics Amazon tracks in its customer-service ratings. Two employees use a software program called Trustpilot to scroll through every 1-, 2-, and 3-star review the company receives and give each of them special attention. If a customer remains unsatisfied and won't change the low mark, the reps appeal to Amazon's Seller Support group—the judge, jury, and executioner in all customer-seller disputes—with detailed objections. Thanks to such micro-advocacy, Pharmapacks had more than 3,300 low ratings removed in 2015 alone. To put that into perspective, Pharmapacks products have been rated more than 280,000 times—and its Amazon rating is 4.9 stars.

But Vagenas's desk is constantly cluttered with products that have caused problems. Each day, the Seller Support group takes down one or more Pharmapacks listings without warning because of customer complaints. One day it was a bottle of Dove Advanced Hair Series Quench Absolute Serum that was listed for fine hair but turned out to be for coarse hair. (The manufacturer changed the UPC code, Vagenas said.) Another day it was Cold-Eeze Cold Remedy lozenges. In each case, customer-service reps send Amazon copies of supplier invoices, product photos, and other documentation to get the item relisted, and Vagenas tries to identify the root of the problem and develop a protocol his staff can use to rapidly identify and solve similar problems in the future, so more products won't end up on his desk. But every time I visited, some new toiletry had taken the place of the others on his desk. Uneasy lies the head that wears the crown of 4.9 stars.

HOW THE GOODS ARE GOTTEN

Ever heard the phrase "It fell off the back of a truck"?

No, not like that. Pharmapacks buys from the same established, law-abiding distributors that sell to national chains like Walmart, Costco, and CVS. But ask these distributors where they get the products, and some will give an answer as gruff and dismissive as the vehicular estrangement explanation above.

Pharmapacks has agreements with 16 suppliers. Some deal directly with manufacturers. Others get their goods in more circuitous ways. These tight-lipped suppliers are known by their critics as diverters. (They prefer "secondary market distributors.") They acquire deeply discounted goods through gray-market methods, such as buying deodorant from a company that ordered too much. But diverters don't discuss where they get their goods. Their lawyers will cheerfully tell you they don't have to.

When people discuss the rise of online marketplaces, they tend to focus on the tech companies that have made it possible for shoppers to find and purchase things in a matter of clicks. But that explains only the demand side of the equation. It doesn't explain the supply side—why all this product is available so cheaply and freely in the first place.

In 2014, a guy from Vagenas's regular pickup basketball game asked to introduce him to a guy his girlfriend had met, Jonathan Webb. He ran a similar business, called StocknGo. Vagenas grudgingly agreed. "I'm thinking, I don't know this fucking guy from a hole in the wall," he said. "I didn't want to bring him to the warehouse." He brought Webb to a tiny offsite office where Mastronardi ran the numbers.

Webb, like Vagenas, has little patience for nonsense. "He was like, 'What kind of shit is

CONTINUED ON PAGE 96 ▶

LAUNCHPAD

Thomas Goetz

Great Idea. Now Prove It

Think your company is going to change the world? The proof is turning product into users—and turning users into paying customers

TWO YEARS AGO, when my co-founder, Matt Mohebbi, and I started Iodine, we had nothing but a hunch. We thought we could help people make better decisions about their health by combining data and design, and focusing on their needs rather than on the needs of their doctors or their insurance companies. That was our hypothesis, and we've spent the past two years building a company around it.

Most of those months, we've been building products—specifically, the website Iodine.com and Start, a mobile app for those suffering from depression—that navigate people through their options, with the goal of helping them arrive at a better decision, faster. We're proud of these products, and lucky to have had the time to make them work. In startup land, two years is a long time, enough time to test and refine and fail repeatedly. And now, thankfully, we think we've got a company that's helping people find which medications work for them, just as we'd planned.

Now we have to prove it.

For most companies, proving that you've got a great product simply means selling it to the people who want to use it. But since our products are free to consumers, proving it means getting the evidence ready so we *can* start selling it.

In particular, it means three things:

1) We have to prove that *a lot* of people will use what we've built and that they'll find our products useful enough to recommend to others.

2) We have to prove that our products actually do what we say they do in terms of measurably improving the health and happiness of our users.

3) We have to prove that companies out there are willing to pay for our products (that means employers as well as health care organizations, like pharmacies and insurance companies, that provide our users with medications and care).

The Silicon Valley buzzword for this sort of evidence is *traction*. Traction refers to that cocktail of user growth, marketplace success, and other metrics that show a business is actually making it as, well, a business. For companies like ours making free products, traction means getting enough users now to sell against later. For companies charging users for their products, traction means, basically, sales—but in a mode of rapid experimentation, iteration, and optimization (more buzzwords!).

These concepts are featured in a new book called—you guessed it—*Traction: A Startup Guide to Getting Customers*, by Gabriel Weinberg and Justin Mares. Normally, I'm suspicious of how-to strategy books, but this one came along at just the right time for Iodine, with lucid case studies on what has worked for other startups. We bought everyone on our team a copy of *Traction* and ran a weekly study group that yielded dozens of ideas for how to get Iodine into more people's lives.

Some of those experiments, inevitably, have failed. It turns out, nobody really wants another newsletter on depression. But others have panned out, such as hatching distribution partnerships with like-minded startups—thank you, PillPack and GoodRx. These experiments have not only helped us get users; they've also helped us develop an efficient strategy for getting users, and avoid putting too much effort toward low-yield gambits.

So, what happens once we get a critical mass of users? Then it will be time to monetize, to show that other companies will pay for the products and services we've created.

Two years in, the surprising thing is that so much of this is going according to plan. Back on day one, we knew that Iodine was a great idea. Now we just need to prove it's a great company.

Thomas Goetz is co-founder and CEO of Iodine, a digital health startup based in San Francisco. He is also author of the book *The Remedy*. Follow him on Twitter: @tgoetz.

CODY PICKENS

FOUR POINTS BY SHERATON

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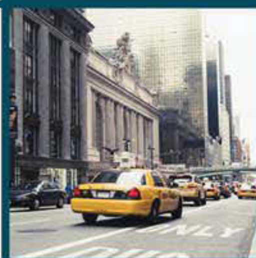
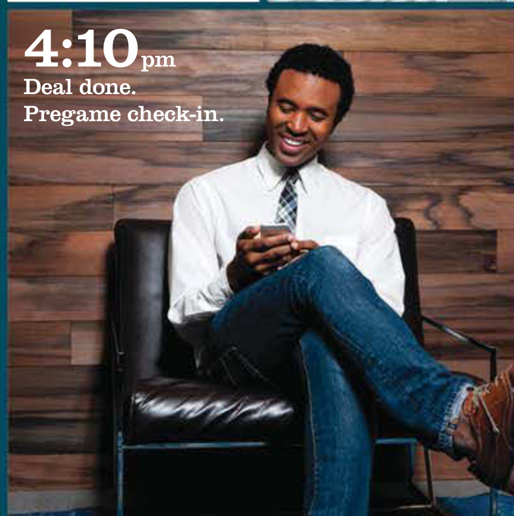
With 200+ hotels, we're everywhere you want to be. With modern, classic design and always-approachable service, we offer what matters most to keep you comfortable and connected. **This is Four Points.**

FOURPOINTS.COM

7:05 am
Post-workout breakfast in the room.

8:00 am
Cab it to a meeting. Take a conference call on the way.

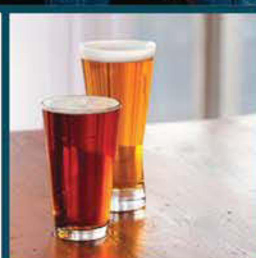




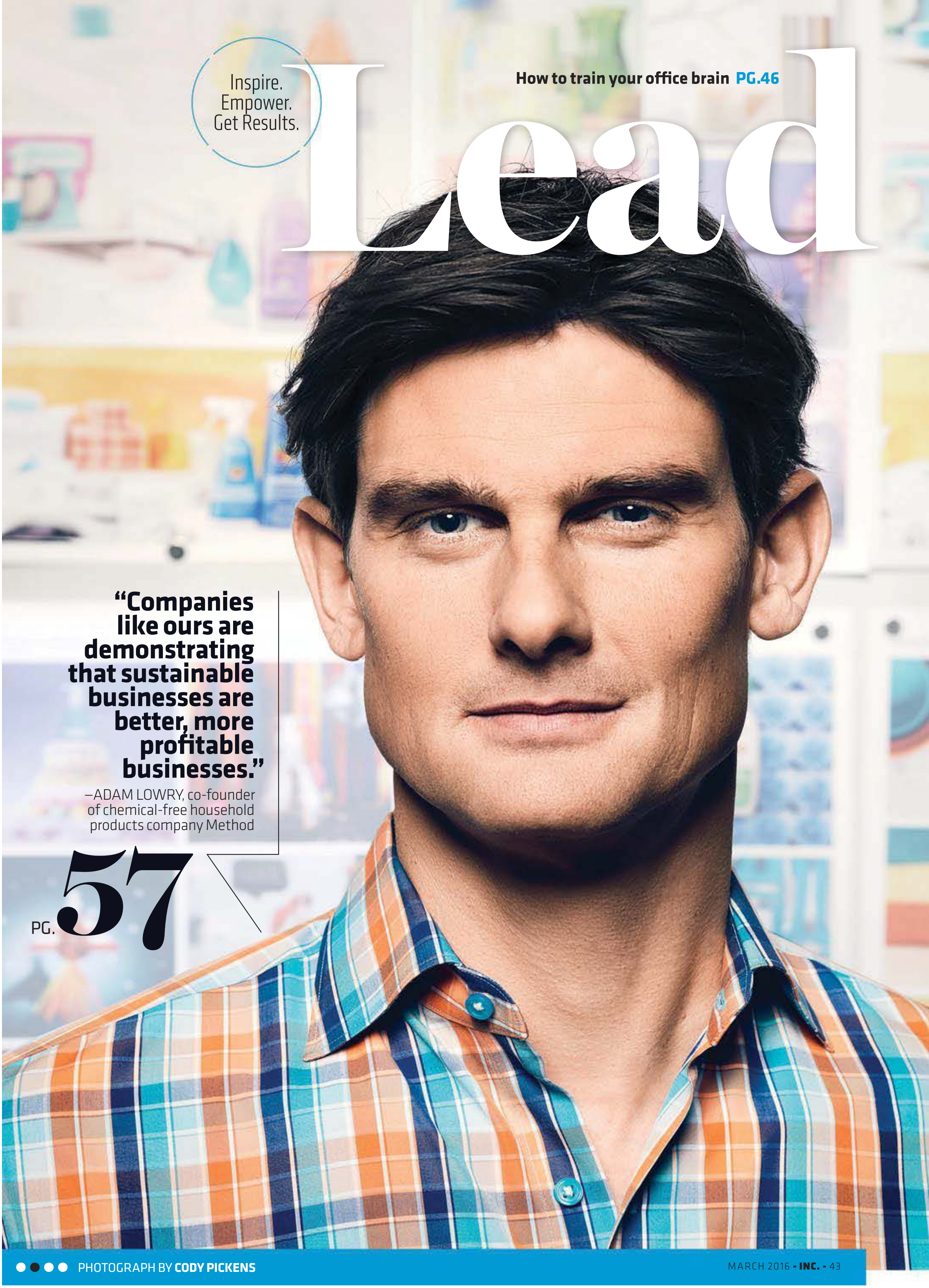
4:10 pm
Deal done.
Pregame check-in.

6:15 pm
Meet the team for dinner.

7:40 pm
Kick back, relax with beers and the game.



spg Starwood Preferred Guest



Inspire.
Empower.
Get Results.

Lead

How to train your office brain PG.46

“Companies like ours are demonstrating that sustainable businesses are better, more profitable businesses.”

–ADAM LOWRY, co-founder of chemical-free household products company Method

PG. 57

PHOTOGRAPH BY **CODY PICKENS**

THE FASTEST-GROWING COMPANIES IN EUROPE

THE SECOND ANNUAL Inc. 5000 Europe list—which recognizes the private companies with the fastest-growing revenues over three years—shows how entrepreneurship continues to spread from the established likes of England, Sweden, and Germany to next-generation economic players like Latvia, Lithuania, and Hungary. The new founders on the Continent are "young, digital, hungry, self-confident, and smart," says Jacqueline Fendt, scientific chair of entrepreneurship at ESCP Europe Business School. Incubator and accelerator programs continue to ramp up and technical schools produce thousands of engineers each year—and while all that is encouraging, so is the strength in manufacturing and construction, the sectors that placed the most companies on the current 5000.
—NOAH DAVIS

THREE-YEAR REVENUE GROWTH RATES

125-149% | 150-174% | 175-199% | 200-224% | 225-249%

ROMANIA

No. 63 VIITORUL S.A.
Romanian soccer legend Gheorghe Hagi founded this *fotbal club*—what the U.S. calls a soccer team—in 2009 in tiny Ovidiu. There, he's developed players who've gone on to play for bigger teams in England and Italy.

SPAIN

No. 1 MP VAT SERVICES
The fastest-growing company in Europe got there by cutting red tape: Madrid-based MP VAT Services created a single system to simplify tolls, VATs, and refunds for transport companies moving goods across national borders.

MALTA

No. 4 CO-GAMING LIMITED
Europe's appetite for mobile sports betting and gaming vaulted this tiny island nation's company to the topmost ranks of the list—its three-year growth rate is 2,231 percent.

SPREAD: GETTY (4)

SWEDEN

No. 6 AVICII

Thanks to hits like "Sunshine" (with David Guetta), "Wake Me Up," and "I Could Be the One," Stockholm's Tim Bergling—the electronic musician, producer, and DJ better known as Avicii—is one of Europe's best new businesses. Point out, if you must, how troubled the music business is, but this 26-year-old's performance suggests all is far from lost.

LATVIA

No. 2 CREAMFINANCE

Its capital, Riga, is the city with the most top-30 companies on the list, with four. Matiss Ansviesulis, co-founder of the consumer-lending company that clocked in at No. 2, cites his country's growing infrastructure and limited bureaucracy. Latvia also has the lowest corporate taxes in the Baltics.

LITHUANIA

No. 89 UAB DLG

Capital city Vilnius is home to 73 Inc. 5000 honorees, the top ranked being logistics company UAB. Lithuania has 59 such companies per million citizens—good enough for fourth on the Continent among countries that placed more than 20 companies on the 5000.

AUSTRIA

No. 62 WP PERFORMANCE SYSTEMS

Among countries with more than 20 Inc. 5000 companies, the aggregate growth rate of Austria's honorees—which were led by this motorcycle parts maker—was 246 percent—tops on the continent.

NUMBER OF COMPANIES PER COUNTRY

SWEDEN	554
UNITED KINGDOM	538
FRANCE	451
SPAIN	387
ROMANIA	333
FINLAND	324
HUNGARY	280
SLOVAKIA	216
NORWAY	204
PORTUGAL	203
RUSSIAN FEDERATION	190
LITHUANIA	169
LATVIA	161
BULGARIA	147
ITALY	131
CZECH REPUBLIC	114
ESTONIA	109
GREECE	101
CROATIA	67
AUSTRIA	51
SLOVENIA	42
GERMANY	37
BELGIUM	35
POLAND	34
BOSNIA & HERZEGOVINA	33
DENMARK	26
UKRAINE	20
NETHERLANDS	19
SWITZERLAND	8
ICELAND	4
IRELAND	3
MALTA	3
TURKEY	2
AZERBAIJAN	1
CYPRUS	1
LIECHTENSTEIN	1
MONACO	1
SAN MARINO	1

661

Number of current Inc. 5000 Europe companies that were also on last year's list.

116

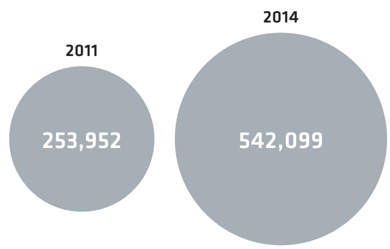
Inc. 5000 Europe companies in Budapest, Hungary—a strong showing trailing only London's 151 and Stockholm's 118.

INC. 5000 EUROPE REVENUES

226%

AVERAGE THREE-YEAR REVENUE GROWTH

INC. 5000 EUROPE EMPLOYEES



288,147

JOBS CREATED IN THREE YEARS

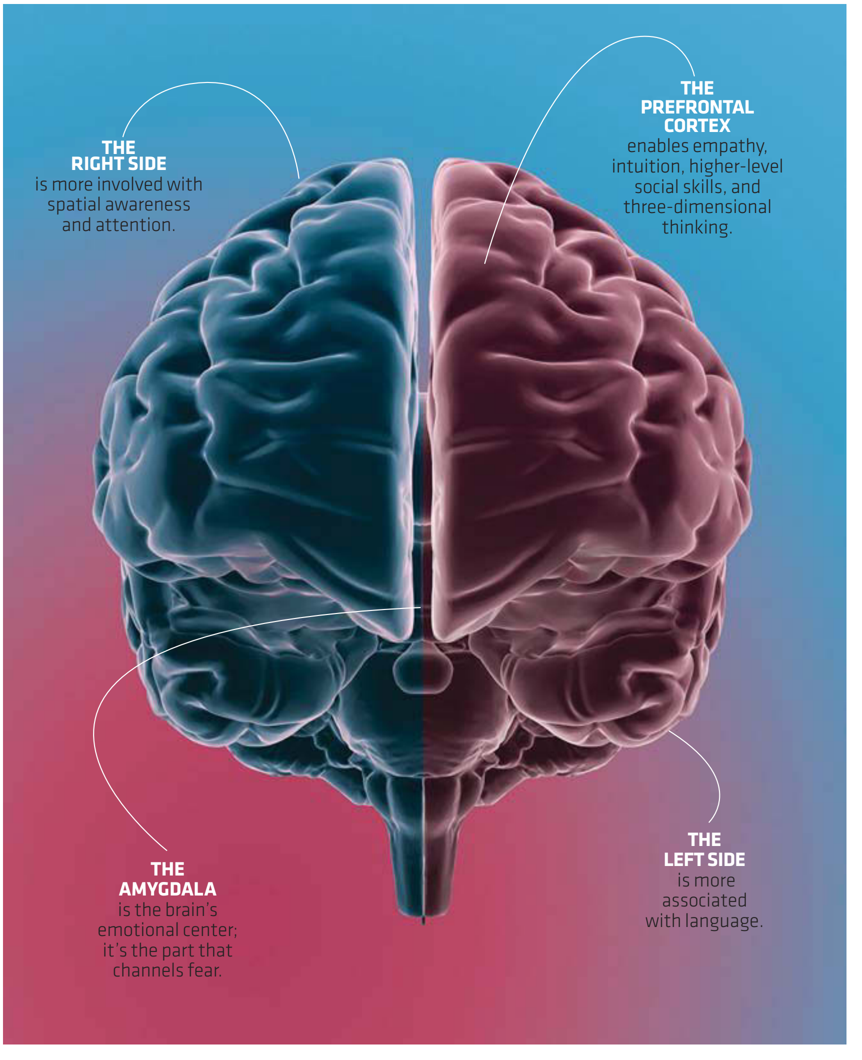
NUMBER OF COMPANIES PER SECTOR

MANUFACTURING	842
CONSTRUCTION	714
RETAIL	589
BUSINESS PRODUCTS & SERVICES	420
LOGISTICS & TRANSPORTATION	372
FOOD & BEVERAGE	351
HEALTH	207
IT SERVICES	174
CONSUMER PRODUCTS & SERVICES	162
TRAVEL & HOSPITALITY	154
ENGINEERING	136
SOFTWARE	132
FINANCIAL SERVICES	117
TELECOMMUNICATIONS	92
HUMAN RESOURCES	88
REAL ESTATE	87
ADVERTISING & MARKETING	68
ENERGY	67
MEDIA	60
EDUCATION	47
ENVIRONMENTAL SERVICES	43
SECURITY	32
INSURANCE	23
GOVERNMENT SERVICES	17
COMPUTER HARDWARE	7

For the complete list of the current Inc. 5000 Europe and additional coverage, visit inc.com/inc5000eu.

How to Train Your Office Brain

If your meetings are sputtering, rewiring the gray matter may help get employees reconnected



THE CO-FOUNDERS of Aditazz, which uses software to design and construct hospitals and other specialized buildings, were beyond frustrated. Zigmund Rubel, an architect, wanted to design buildings in one direction, either from the outside in or from the inside out, depending on the project. Deepak Aatresh, the CEO and an electrical and computer science engineer, was interested in simultaneous outside-in, inside-out design aided by computation.

It was one of many seemingly irresolvable conflicts. "We knew we were well-intentioned, very smart, accomplished people, but it was hard to make forward progress," Aatresh says.

This type of clash is familiar to neuroscience expert Ajit Singh, a partner at VC Artiman Ventures and member of the Aditazz board of directors; it has its roots in the brain. Innovation comes from combining disciplines, but people in different disciplines don't think the same way. The idea that the right brain hemisphere controls creativity and the left logic has been debunked. But research shows that

INSIDE THE MIND OF THE ENTREPRENEUR

Born entrepreneur? New research shows that some people are wired that way

Greater Mental Flexibility

According to Heidi Hanna, author of *The Sharp Solution: A Brain-Based Approach for Optimal Performance*, entrepreneurs excel at switching tasks quickly: "It may be from taking on too much at once or that multitasking is more important for their success."

Higher Perceived Stress

"Most successful entrepreneurs say they have high levels of stress but thrive on it," Hanna says. In their next phase of research, her team will look at biological markers to see whether stress is harming entrepreneurs or not.

FROM TOP: STEFAN SCHULZE/GETTY; GETTY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the left brain is more responsible for language, whereas the right takes care of spatial processing and attention. “People don’t select professions,” Singh explains. “Professions select people.”

These differences were interfering with decision making. Aatresh would schedule one-hour meetings for the startup team to make major decisions, but the conversation would go off-track. An hour would pass and little was accomplished. When he asked Singh how long decision making should take, the answer was: “I don’t know. Let’s let it go.” The solution was to create a lounge area with comfortable seating where people could sit as a group. Meetings began at 6 p.m., included wine and snacks, and had no planned end time. Some went as late as 1 a.m. But Aditazz’s best innovations came out of these sessions.

You may not want all-nighters, but Aditazz’s approach is broadly applicable. It works by creating a setting in which employees feel safe and open to collaboration. Making your people feel safe is key, because without that, “we go into protect behavior,” says Judith E. Glaser, author of *Conversational Intelligence: How Great Leaders Build Trust and Get Extraordinary Results*. “The amygdala takes over. The prefrontal cortex gets shut down.” The amygdala is linked to fear responses and pleasure. The prefrontal cortex enables empathy, intuition, higher-level social skills, and three-dimensional thinking, Glaser says. “It allows a level of innovation that’s off the charts in a way people have trouble explaining.”

Glaser begins meetings by asking those present to describe what success looks like. When someone hears that others share his or her goals, it stimulates the rostromedial prefrontal cortex, which governs social decisions. “It says, ‘Let’s be friends. I’m more like you than you think,’ ” she explains. Singh made Rubel and Aatresh start meetings by telling each other that they understand their thought processes are different. “It sounds like kindergarten,” Singh says. “But over time, I saw there was a lot more empathy.”

The idea that the right brain controls creativity and the left logic has been debunked.

That empathy led Aatresh to change his behavior. “Engineers love to go to the whiteboard,” he says. “I realized that’s intimidating to the intuitive people, because they know you’re going to force their thinking into those boxes.”

Now he sometimes ditches the whiteboard and wanders the room. Invariably, the architects are doodling while the engineers take notes. “For years, I believed people who doodled in meetings were time wasters,” he says. “Now I see there’s a connection between drawing on a sheet of paper and drawing one’s thoughts out.”

—MINDA ZETLIN

NEURO-LESSONS

Here are three places to reprogram for better performance

1 BEWARE THE NONCONSCIOUS

“People communicate powerful cues by body language. We process these cues nonconsciously, in a fifth of a second,” says Dr. Evian Gordon, CEO of MyBrainSolutions.com. When we feel threatened, our nonconscious mode can assert itself. If someone says, “But I’m concerned” and crosses her arms, she can nonconsciously give a cue meaning she is switching off.

2 MIND OVER MATTER

Prime yourself for success by elevating your mood before a speech or meeting—for instance, with 20 minutes of moderate exercise, suggests Josh Davis, director of research at the NeuroLeadership Institute in New York City, and author of *Two Awesome Hours: Science-Based Strategies to Harness Your Best Time and Get Your Most Important Work Done*. When stressed, try picturing something calming, such as a flower or landscape.

3 MAKE PEOPLE COMFORTABLE

New Jersey-based Pirch, a retailer of luxury appliances, uses neuroscience to create spaces where people feel safe and can enjoy themselves, says co-founder Jim Stuart: “We rationalize our choice of one store or another, but what really happens is that the nonconscious limbic brain hijacks your cerebral cortex. For the nonconscious brain, the priority is avoiding risk and seeking rewards.”

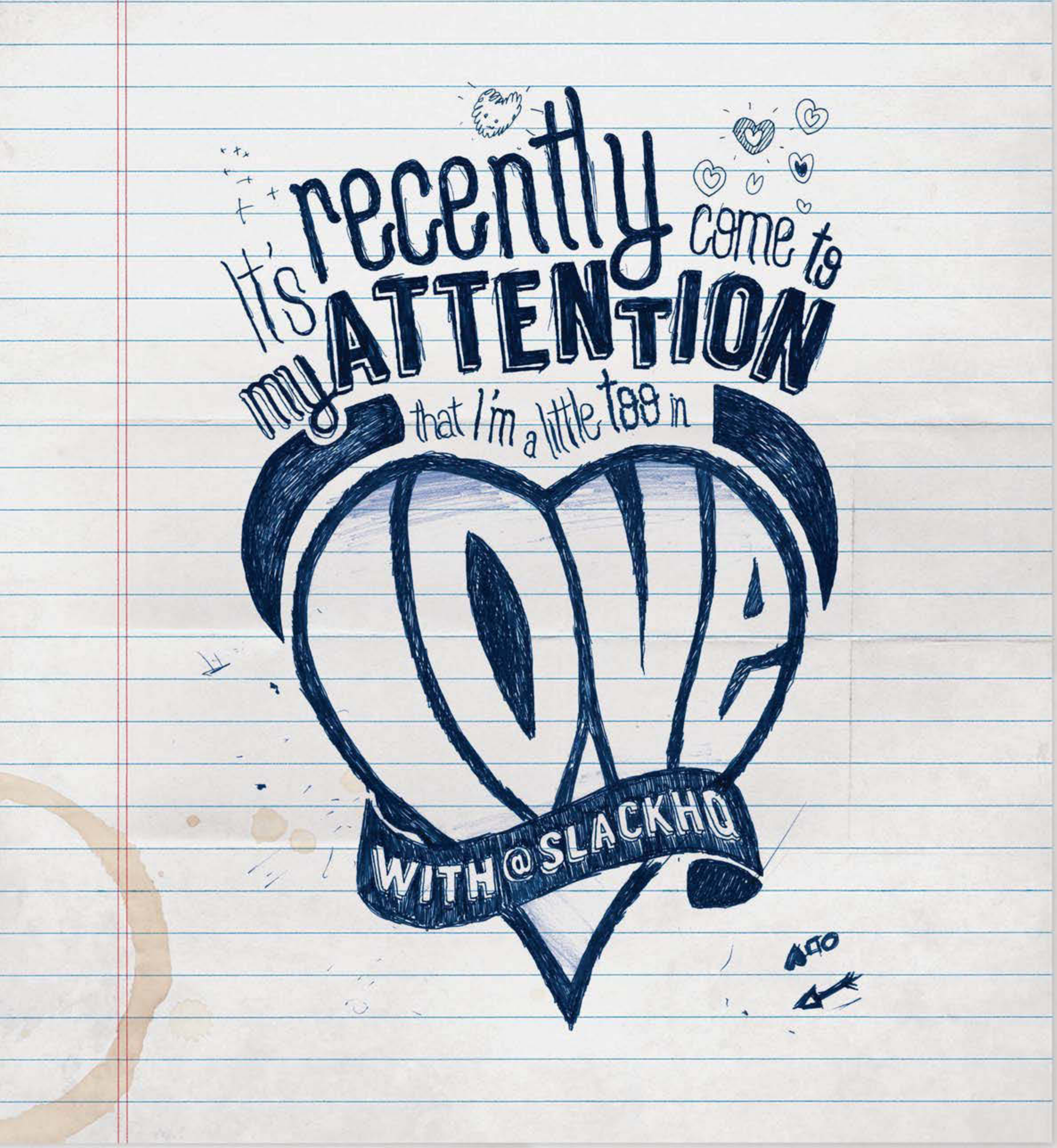
Positively Above Average

A positivity bias is the nonconscious presumption that you are safe, whereas someone with a negativity bias sees threats everywhere. On a negative-to-positive scale of 1 to 10, the average person scores a 5.5, but entrepreneurs hit an average of 6.5.

Accurate and Agile

Entrepreneurs have above-average motor coordination. At first Hanna thought this was insignificant, but then she realized it might be linked to a key trait. “As I talked to entrepreneurs about what makes them different, they said they make quick decisions. If one turns out wrong, they’re confident they’ll be able to make it right.”

ALAN THORNTON/GETTY



We're blushing, **@RonellSmith**. Thank you.

We like to think Slack's changing the way teams communicate. But don't take our word for it.
slack.com/love

slack
Work on purpose

Retirement accounts can sound like alphabet soup. Pick out the best letters for your future

AS THE APRIL 15 tax deadline looms, you're likely overwhelmed with short-term concerns about your business budget and your personal finances. But you should also be considering two crucial longer-term questions: What are you saving for retirement, and where are you saving it?

If your answers boil down to "hoping to sell my business when I'm ready to retire," please think again. This is a particularly good time to weigh your options: You still have a few weeks left to put aside some money for the 2015 tax year—and then you'll have a jump on this year's financial decisions.

Some of these decisions have gotten much easier to make. The Obama administration last year finalized the myRA, a retirement-for-beginners account. But in case you want something more tailored to your individual needs, we've compiled a guide to some of the best retirement accounts for entrepreneurs.

"You need to ask, 'What size fits me best?'" says Mary Gibbons Gardiner, a vice president and financial adviser with Morgan Stanley.

The most common options for business owners are individual retirement accounts (IRAs), solo 401(k)s, and simplified employee pensions (SEPs). Which makes the most sense for you hinges on how much you're allowed to put away each year; whether you have employees; how high your tax rate is; whether you might need to lay hands on your contributions before you retire; and how old you are. Many allow you to exceed the following limits if you're at least 50.

Retirement Kickstarter
The Treasury Department's back-to-basics myRA is "a new way for working Americans to start their own retirement savings," President Obama said in his 2014 State of the Union address. While the contribution maximums are the same as for a regular IRA, the myRA has no management fees, no minimum contributions, and just one, very basic investment option—a Treasury bond.

$131,000
▲ Maximum gross 2015 income for individuals who want to open a myRA; $193,000 is the limit for couples.

IF YOU WANT TO DO something right away that counts toward 2015, you have until April 15 to open an IRA or SEP. If you don't mind being limited to $5,500 a year, opening an IRA is an easy, quick choice. You can do so online for free with almost any bank or brokerage firm, even if you don't already have an account there. (Some require a minimum initial deposit, but many don't.) You can pick individual investments or use the automated portfolio management feature (a.k.a. robo-advice) at some financial institutions.

If you want to deduct your IRA contributions from your taxes, pick a regular IRA; you'll pay taxes on your funds once you withdraw them. A Roth IRA is the opposite: Your contributions are from after-tax dollars, but withdrawals are not taxed. This is the best option if you're young or don't make much money, because you're in a lower tax bracket and don't need the deductions you get with regular IRAs, says Mari Adam, a certified financial planner and president of Adam Financial Associates in Boca Raton, Florida. A Roth IRA also allows you to withdraw your contributions at any time, without penalty. (There's usually a 10 percent penalty, plus taxes, for withdrawing your regular IRA contributions before you're 59½.)

IF YOU HAVE MORE MONEY available to put away, consider an SEP. It's popular among business owners with no employees, and the self-employed who want to save more. You may contribute as much as 25 percent of your net earnings, up to $53,000. Another option if you're self-employed or if your spouse is your only employee is a solo 401(k), which allows you to stash the same percentage of earnings and to defer up to $18,000 of your salary annually. If you don't have employees, you might prefer an SEP, which gives you until April 15 to make contributions for the previous year, and has a percentage contribution formula, which benefits those with higher incomes. An SEP, like a 401(k) and an IRA, can also help lower your tax burden in areas with high rates, like New York and California.

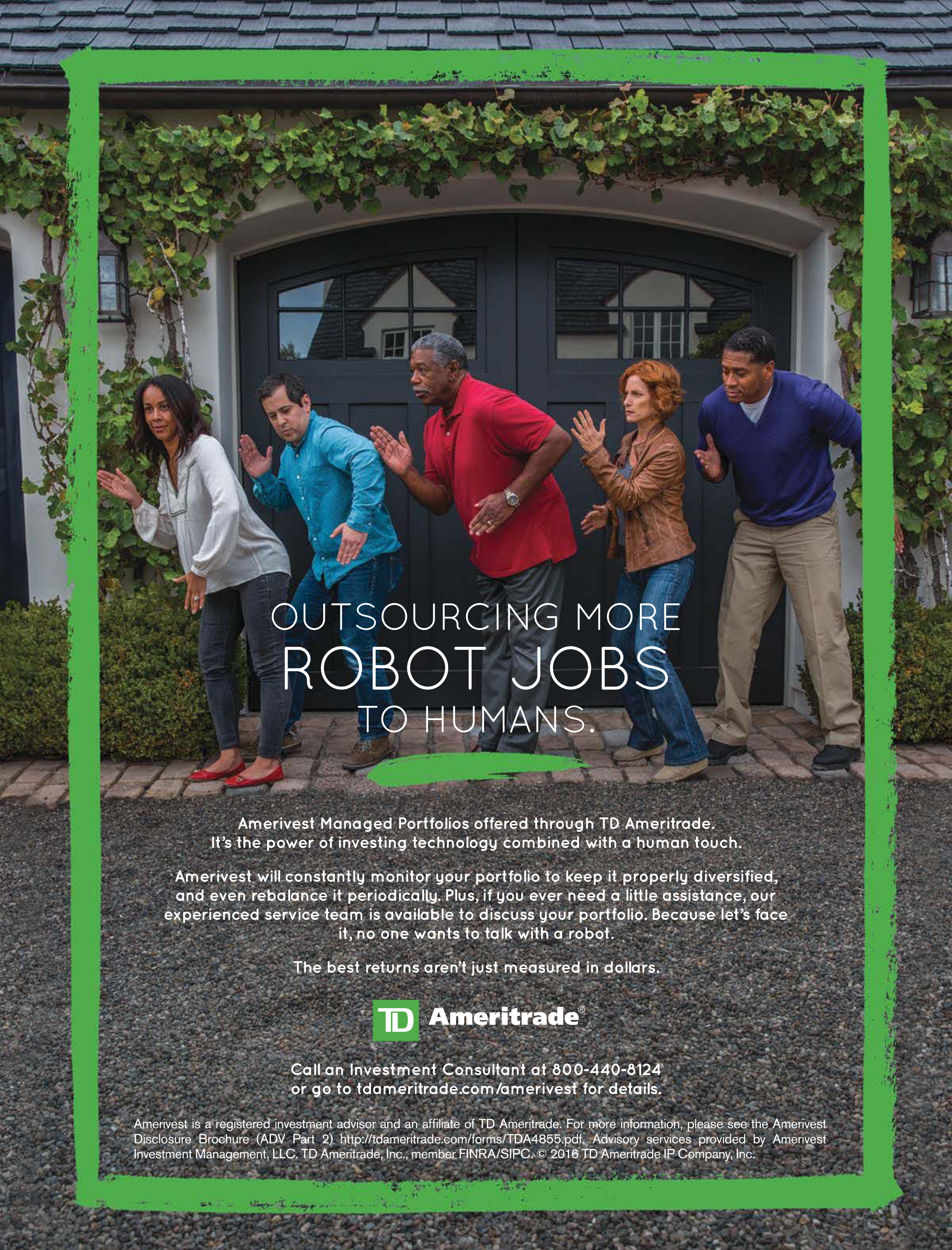
Finally, if you want an account that covers your employees, too, consider a savings incentive match plan for employees ("simple") IRA. For small businesses with up to 100 workers, a simple IRA is usually free and easier to administer than a traditional 401(k). You and employees can each put away $12,500 of your salaries; you usually have to match up to 3 percent of your employees' compensation.

Ultimately, relying on building your business might pay off—but it might not. Whatever happens, you'll need to retire at some point. Avoid the risk now by making a smart retirement backup plan.

—

ALINA TUGEND *is a New York City–based journalist and the author of* Better by Mistake: The Unexpected Benefits of Being Wrong.

SAUL LOEB/GETTY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It's the power of investing technology combined with a human touch.
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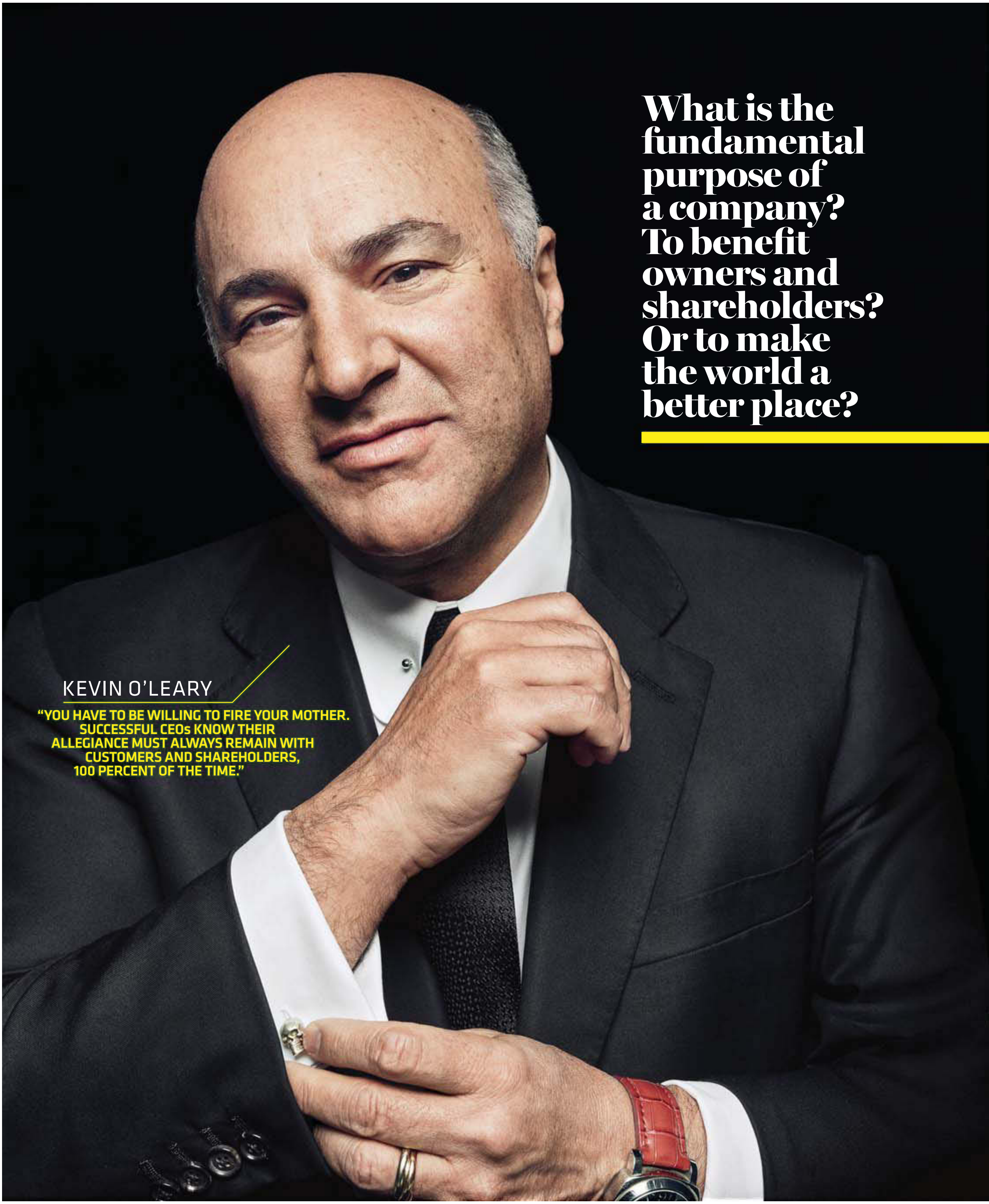
What is the fundamental purpose of a company? To benefit owners and shareholders? Or to make the world a better place?



KEVIN O'LEARY

"YOU HAVE TO BE WILLING TO FIRE YOUR MOTHER. SUCCESSFUL CEOs KNOW THEIR ALLEGIANCE MUST ALWAYS REMAIN WITH CUSTOMERS AND SHAREHOLDERS, 100 PERCENT OF THE TIME."

PHOTOGRAPH BY **MILLER MOBLEY**

"NO LONGER CAN ANY BUSINESS INTERESTED IN PROFITABILITY AFFORD TO LET THE INVISIBLE HAND MANAGE ITS ENVIRONMENTAL AND SOCIAL IMPACTS."

ADAM LOWRY

Inc. asked two notable entrepreneurs who stand on opposite sides of the debate to make their cases

PHOTOGRAPH BY **CODY PICKENS**

By **BILL SAPORITO**

Over the past decade, the ranks of entrepreneurs who see beyond the bottom line have been growing. Method, Toms, Warby Parker, and Whole Foods Market have planted the flag of social responsibility, or conscious capitalism, and defended it profitably. Some formally declare their commitment to all stakeholders—owners, employees, the community, and the environment—by becoming "benefit corporations," a new legal designation. Others simply build a social benefit into their business plan.

But should you join them?

Should your business try to do anything other than generate sales and profits? Survival, after all, is a noble goal in itself. Do you really have to save the planet, too? To dog-eat-dog entrepreneurs like Kevin O'Leary, any startup trying to do more than serve customers and generate profits is being run by labradoodles playing among the pit bulls of commerce. "Running a business is hard," says *Shark Tank*'s resident cynic and co-founder and chairman of O'Leary Funds, who has myriad investments. "You have to be willing to fire your mother. When you are the leader of a business, your responsibility is to the success of the whole organization, not any one individual, including yourself. Successful CEOs know their allegiance must always remain with customers and shareholders, 100 percent of the time."

If you're starting a business, or reevaluating how to focus your existing business, the profit vs. purpose debate has never been sharper. The argument started some 50 years ago, when capitalist icon Milton Friedman tried to smother the nascent corporate social responsibility movement. Friedman argued that earning profit for the owners has been the mandate—and for public companies the legally binding fiduciary responsibility—since capitalism appeared. While Friedman didn't oppose social responsibility, he reasoned that society is better served when companies maximize profits for the owners, who can then invest in social causes with the proceeds. He said founders who do otherwise are "unwitting puppets" of socialism who effectively "tax" customers—because prices would have to increase to cover the cost of all that social responsibility.

But the number of entrepreneurs who want to use commerce in ways great or small as a force not just for profit but also for good is growing. These founders have witnessed the consequences of unfettered capitalism, and it isn't a pretty picture: global warming, pollution, income inequality, environmental degradation, and resource depletion. Many Millennials saw their Boomer parents spat out in one restructuring or another as corporations pay fealty to Wall Street over people. And they are saying, "No, thanks."

"The meltdown of our global financial system was a direct result of inadequate checks and balances," says Adam Lowry, co-founder and chief global sustainability officer of Method, which makes chemical-free household products. (It was purchased by Belgium-based "green" cleaning products company Ecover in 2012.) "It's a prime example of the invisible hand reigning supreme, while placing the trillions of dollars of recovery

PREVIOUS SPREAD: O'LEARY: GROOMING: DAVID SHANNON FOR FORD; STYLING: ANNIE GOLDMAN FOR FORD; LOWRY: GROOMING: TAHNI SMITH; STYLING: CHUN-MUI

costs onto the backs of American workers, whose real wages have been declining since the Great Recession."

It's Millennials, the largest demographic in America, who are powering the popularity of socially conscious capitalism. For one, they are not shy about their desire to buy from, do business with, and work for companies that have more than profit as a goal. According to the Deloitte Millennial Survey, 87 percent of Millennials believe that a company should have a larger purpose than racking up profits.

Consumers in general are also expanding their purchasing criteria. According to a report by the Natural Marketing Institute, those living lifestyles of health and sustainability now represent 22 percent of the consumer base. That's up from 15 percent in 2005. More important, NMI reports a continued "greening" of consumers across the board: The segment of consumers who call themselves "conventional" or "unconcerned" about social responsibility continues to decline. More consumers care, and more care more.

Increasingly, consumers buy on the basis of values *and* value. In turn, retailers, always sensitive to consumer sentiment, are putting profit into the equation.

Target, for instance, introduced a program in 2014 called Made to Matter—Handpicked by Target that features sustainably manufactured and sourced products. The popularity of the line compelled Target to nearly double its size, to more than 200 products. Sales of Made to Matter products were expected to hit $1 billion for 2015, the company said, up 30 percent from the prior year. Target's research showed that shoppers wanted more transparency and authenticity from the brands they buy.

Target may want to look up a reusable plastic lunch bag called (Re)zip, made by Blue Avocado, based in Austin. Company co-founder Amy George is on a mission to cut waste, source locally, and address gender inequality. She also invests a portion of sales in microentrepreneurs. "There is a more conscious consumer at the table," says George. "The Millennials are driving growth and they care. They study your supply chain, and they know a ton about it. That's good for businesses like mine. The buyers at these retailers are also Millennials." (Re)zip's customers, which include Bed Bath and Beyond and the Company Store, are pushing Blue Avocado toward $8 million in sales.

But Friedman acolytes argue that if (Re)zip is paying above-market wages and sourcing locally, surely it's not going to generate the returns of its profit-driven competitors—and therefore won't be as efficient in raising or using capital. There are signs that his argument is starting to break down. Philip Berber, an entrepreneur who founded Austin-based Enable Impact, which connects so-called "impact investors" with companies such as Blue Avocado, says any gap that once existed in returns has diminished. "We're seeing [socially responsible] investment funds outperforming the S&P and traditional investment managers," he says.

According to a study by Cambridge Associates, impact investment funds launched between 1998 and 2004—meaning those that have had a chance to sell their portfolios—have outperformed comparable private-equity funds. Those of later vintage still lag, returning 6.9 percent to the PE competition's 8.1 percent, but there's still value to be realized when they cash out of investments, according to the study. Berber says both types of companies exhibit similar early-stage mortality rates.

There is even some evidence that socially responsible companies are more resilient than profit-driven firms. A type of certified "socially responsible" company called a B Corp has higher two- and five-year survival rates than traditional companies, according to B Lab, the sanctioning organization for B Corps. Method, Warby Parker, and the evergreen Ben & Jerry's are B Corps, a designation that involves getting a formal certification and biannual "audit" of criteria such as environmental and community impact, wages, and governance.

There are 1,577 B Corps worldwide, a figure that is growing rapidly, and 26 of them landed on the 2015 Inc. 5000.

This model might also make it a lot easier to hire top talent. The Deloitte survey found that 44 percent of Millennials have turned down a job offer because the company's values did not match their own.

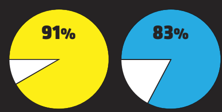
So if the consumer wants it, the market wants it, profits and performance aren't necessarily sacrificed, it could make your company more resilient, and make it easier to hire top

THE UPSIDE OF BEING A B CORP

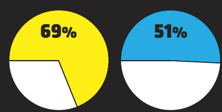
B CORPS ARE CERTIFIED AS SOCIALLY CONSCIOUS ENTERPRISES. THEY ARE ALSO MORE RESILIENT.

■ *2-YEAR SURVIVAL RATE*
■ *5-YEAR SURVIVAL RATE*

B CORPORATIONS



TRADITIONAL SMALL BUSINESSES



SOURCES: B LAB, DUN & BRADSTREET

TOP 5 B CORPS IN THE INC. 5000

RUNA
NO. 203 *INC. 5000 RANK*
2,068% *3-YEAR GROWTH*
$4.6M *2014 REVENUE*

BRIDGESTONE NATURAL FOODS
NO. 495 *INC. 5000 RANK*
927% *3-YEAR GROWTH*
$83.8M *2014 REVENUE*

ECOZOOM
NO. 768 *INC. 5000 RANK*
589% *3-YEAR GROWTH*
$6.8M *2014 REVENUE*

SUNDIAL BRANDS
NO. 876 *INC. 5000 RANK*
511% *3-YEAR GROWTH*
$123M *2014 REVENUE*

FULL CIRCLE HOME
NO. 895 *INC. 5000 RANK*
502% *3-YEAR GROWTH*
$4.3M *2014 REVENUE*

young talent, why is there still a debate about the logic of being a socially conscious company?

THE REASON TO STICK to a profit-driven business, says O'Leary and other Friedmanites, is simple: Entrepreneurship is really difficult. Complicating it with other issues raises the risk of failure.

Don't be misled by the success of companies like Warby Parker, says O'Leary. They're the exception, a green shoot, and there's no evidence this model can scale consistently and over decades. Even Ben & Jerry's, one of the most successful socially conscious companies, is now owned by a conglomerate, Unilever, of the sort that Millennials claim to abhor.

Steven Kaplan, a professor of entrepreneurship and finance at the University of Chicago's Booth School of Business, warns against trying to serve too many masters. Without profit as a focus, "it's very hard to tell if you're doing a good job," he says. "You have to worry about accountability. It's easy to say: 'I'm great. I'm delivering value to consumers, to the environment. That's why profitability is suffering.' But it's a slippery slope."

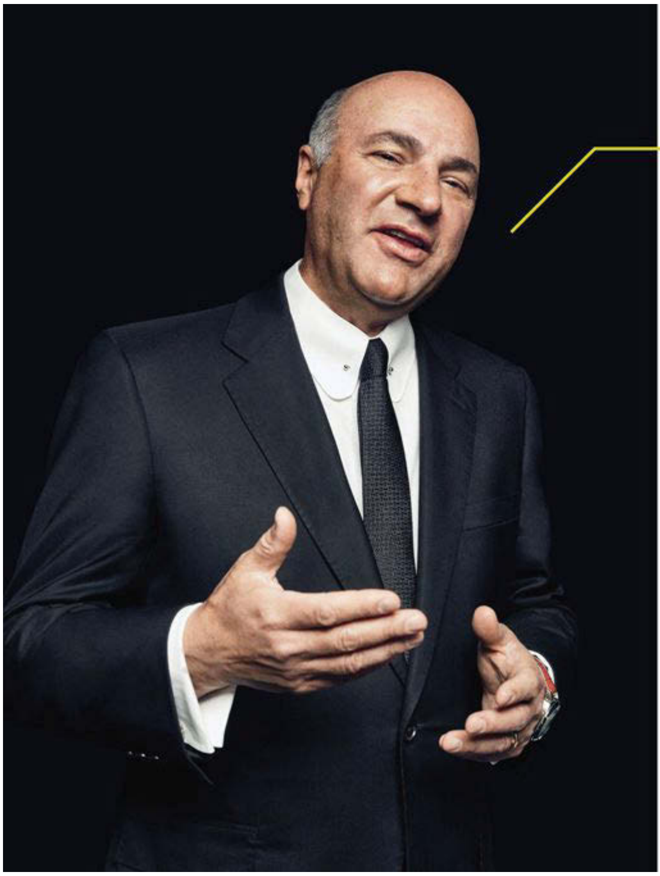
Being an entrepreneur also demands that you be able to pivot constantly, says O'Leary. That's hard to do when you're serving constituencies outside the core business.

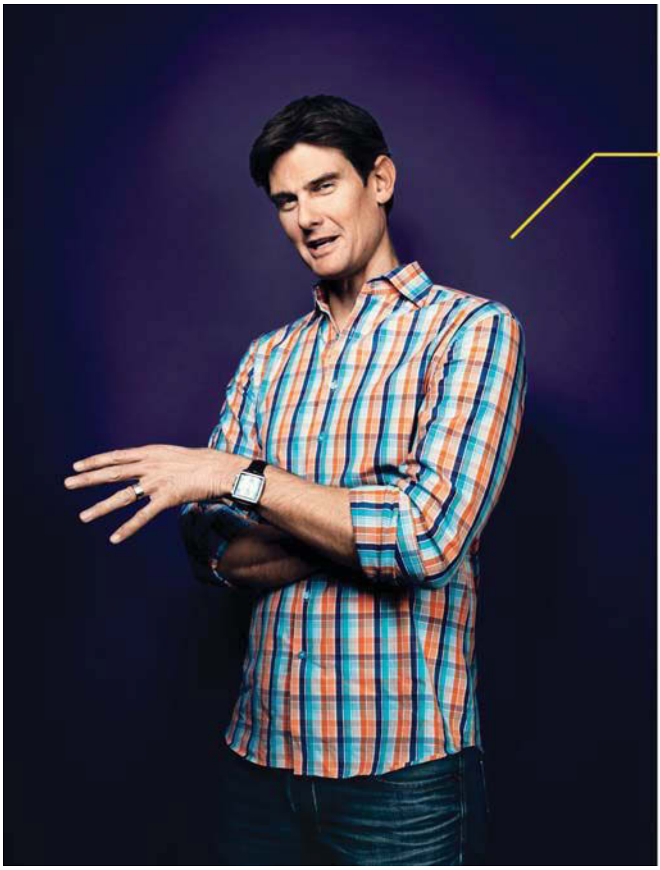
Charles Koch, the chairman of Koch Industries, the $115 billion leviathan of 100,000 employees, and author of *Good Profit: How Creating Value for Others Built One of the World's Most Successful Companies*, says the most compelling reason to focus on profit is because you'll do more good in the long run. "We're not a charity," says Koch. "The more earnings we have, the more good we can do and make our employees' and communities' lives better." While the Koch brothers are known more for their conservative causes, in 2014, the latest year for which data is available, the Charles Koch Foundation donated $36 million, from assets of $528 million, to dozens of colleges and universities. It's just one of the many Koch-run foundations that are funded by the company's profits.

Koch Industries companies are among the nation's biggest polluters, but Koch says they are addressing this problem by running plants better. Retailers like Target and Walmart demand this as they respond to their customers' calls for greener, cleaner products. Walmart is nobody's idea of liberal, but the retailer has forced vendors like Koch's Georgia-Pacific unit, which makes paper products, to reduce packaging and optimize their truck deliveries to cut waste, CO_2, and other pollution. That, says Koch, is the market working.

Maybe there's a third way to think about this fundamental business question—one that reflects the fact that social responsibility is altering business practices at all companies, whatever the founders' profit philosophy. As consumer demands shift, fair treatment of employees (which boosts productivity), green off-the-grid energy sources (which lower price volatility), and sustainable sourcing (which reduces supply-chain and political risk) isn't profit-killing idealism. It's prudent management. "That's a value-maximizing strategy," says Kaplan. "That's perfectly consistent with Milton Friedman."

BILL SAPORITO *is an* Inc. *editor-at-large.*





FROM TOP: MILLER MOBLEY; CODY PICKENS

“Here is the truth: The DNA of a business is to maximize returns to its shareholders.”

KEVIN O’LEARY, CO-FOUNDER AND CHAIRMAN OF O’LEARY FUNDS

I was sitting in my *Shark Tank* chair recently, taping a pitch from two Millennials who were looking to raise $250,000 for their fledgling underwear business. The undergarment market is brutally competitive, the margins are razor thin, and getting shelf space from retailers is next to impossible. If someone asked me to find a business that most emulated hell on earth, it would be this.

Chances that I would invest in this? Zero. But wait! This proposal was different. For every pair of skivvies they sold, they were going to give a dollar to charity. They believed that adding a dose of altruism to their business model would somehow make them impervious to the brutal realities of the undergarment market. I’ve heard the same pitch for socks, knapsacks, ties, and dog accessories.

I never hear from these companies again; I assume they go out of business. It seems to me that when people go out to buy underwear, they want the best product at the lowest price. Always have, always will.

There seems to be an assumption, mostly by people who have never run a business, that corporate America can and should do more than achieve its primary mandate of maximizing its return. Here is the truth: The DNA of a business is to maximize returns to its shareholders, so they are incentivized to reinvest their capital and start new businesses, create new jobs, and provide innovative products and services that improve lives.

When you contort a business to change this mission, you destroy the very essence of what makes America great. Modifying the corporate model to solve all of society’s problems is simply un-American. And when a CEO takes on a social mission that doesn’t serve all constituencies, that’s a recipe for disaster.

If you’re going to adopt a social mission, it has to pay for itself. A business that disadvantages its model with expenses that don’t add value for owners gets beaten by more efficient competitors. This is the Darwinian nature of competition.

I have no problem with the concept of “do no evil” in business. The fair debate is this: Who should pay for it and where should the expense live—on the income statement, or as a gift from shareholders after they have been paid their dividend?

We don’t need more companies trying to solve social problems. We need businesses to return more capital to their owners so they can do what they have always done—pass it forward. It’s the reward for running a good business, not a function of one. Think of the multibillion-dollar commitments made by Microsoft’s Bill Gates, Berkshire Hathaway’s Warren Buffett, and, more recently, Alphabet’s Larry Page and Sergey Brin and Facebook’s Mark Zuckerberg. There are hundreds of thousands of business leaders doing exactly the same thing. No one has to tell them; it’s already in their hearts.

Corporations can be bad actors, and we have laws and regulations to deal with them. But we are at a critical point in capitalism’s history. It’s time for those who believe in it to stand up and defend it. I’m raising my hand.

“Sustainable businesses are better, more profitable businesses.”

ADAM LOWRY CO-FOUNDER OF METHOD

There are those who still cling to the antiquated idea that the invisible hand of the free market is all we need to prosper and ensure equitable outcomes for shareholders and stakeholders. They argue the best way for a business to “do good” is to make as much money as possible and then donate some of it to causes it thinks are important. It’s a convenient, but flawed, logic. It doesn’t protect the interests of society and the environment, and it actually produces poorer economic outcomes.

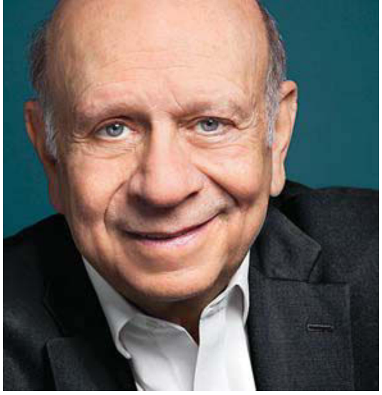
In December 2015, after 20 years of trying, the world’s governments reached a historic agreement to limit greenhouse gases. It happened in no small part because a massive cadre of businesses called for action. Some of the world’s largest and most successful companies signed pledges to greatly reduce their carbon footprints heading into the meeting. That’s because today, even the most profit-minded companies know climate change is a huge limitation on economic growth.

Enlightened corporate governance is expanding past initial leaders like my business, Method, and into the mainstream. The success of businesses like ours is the best and final argument against a “profit-first-and-only” focus.

Method provides several examples of how integrating society and environment actually produces better financial outcomes. Method bottles are unique not just in their design, but in that they are made from 100 percent post-consumer recycled plastic. While the free-market economist would argue that we pay a premium for this material, which is true, the premium is far outweighed by the financial benefit. When oil prices spiked in 2011, nearly all of Method’s competitors were forced to raise prices to cover inflated commodity costs. Because post-consumer plastic is far less carbon intense, as are most ingredients in Method products, we were able to hold our pricing. This resulted in market share gains and revenue growth 20 times the cost of the better materials. These gains have sustained, and—even now, with lower commodity prices—our recycled plastic costs essentially the same as virgin plastic. This is a direct strategic and financial benefit to Method, but there are also cost savings to society in the reduction in the billions of tons of plastic flowing into our landfills and oceans each year.

Method provides full benefits to our hourly factory workers. This investment reduces absenteeism and turnover, and increases productivity. These gains more than cover the cost of providing these benefits. Our factory is also powered by 700 megawatts of wind and solar power generated onsite. Over a 10-year horizon, our energy costs will be lower than they would be if we bought energy from the grid.

No longer can any business interested in profitability afford to let the invisible hand manage its environmental and social impacts. Companies like ours are demonstrating definitively that sustainable businesses are better, more profitable businesses.



STREET SMARTS

Norm Brodsky

The Consequences of a $15 Minimum Wage

Restaurants like mine need to start preparing for it, and the result will be fewer jobs

AS MOST OF YOU PROBABLY KNOW, I operate a chain of fast-casual restaurants in New York City called Kobeyaki, which feature Japanese "rolls, bowls, burgers & buns." We employ 45 people in three locations and more than 80 percent of them are hourly—which puts me right smack in the middle of the current debate over the minimum wage.

That debate is raging in New York, where the governor has publicly committed to raising the minimum wage to $15 per hour as soon as he can. (It's currently $9 per hour in New York; the federal minimum is $7.25.) I understand the emotional appeal of such a move, and, like most entrepreneurs, I have no problem paying employees as much as the business can afford. My partners feel the same way. But if $15 per hour becomes our entry-level wage, there will be consequences. We will have to make significant changes to our operations to stay in business. Jobs will be lost.

The reason is simple math. Our restaurants will no longer be viable if labor costs rise above 35 percent of revenue. And no, we can't just jack up prices and pass the additional cost along to customers. There are real limits to what people will pay. We can charge only so much for a shrimp tempura roll or a Kobe beef burger before our customers will start looking at other dining options.

Right now, labor costs in each of our restaurants average about 26 percent of revenue. We're paying the minimum wage for entry-level jobs, such as busboy and dishwasher. Other hourly people get more than that, but none as much as $15 per hour. If the minimum rises, not only will we have to pay more to entry-level people, but everyone above them will have to get a raise as well. You can't pay someone who does food preparation what you pay someone who buses the tables and sweeps the floors.

Don't get me wrong. I would *like* to be able to pay entry-level people $15 per hour and raise everyone else's wages as well. It's just not feasible. Before the government forces us to do it—as seems likely—we have to take steps to protect both the business and as many jobs as possible.

The first options are to automate and outsource, and we're preparing to do both. Much of the ordering is already automated. We have employees taking and inputting orders right now because human contact is important to building customer relationships. But we'll have to cut back on the number of people doing that job. Customers will have to input their own orders either online or at a console in the restaurant. Nor will we be able to have as many people preparing the food. We prefer to do that ourselves, but we can outsource the work. That will eliminate more jobs and allow us to reduce our labor costs.

I realize that these types of changes will have some negative consequences, both for businesses like mine and for society as a whole. Entry-level, minimum-wage jobs are the first rung on the ladder you have to climb to have a career. In all the businesses I've run, we've recruited people for better-paying, higher-level positions from the entry-level pool. A $15-per-hour wage will put some people on more solid economic ground but at the same time make it harder for thousands of others to find work and get started on a career.

Kobeyaki is not an isolated example. Every business with minimum-wage employees faces the same pressures that we do and will be forced to respond. Those who say raising the minimum wage will have no effect on employment are dreaming.

Norm Brodsky is a veteran entrepreneur. He is the co-author of *Street Smarts: An All-Purpose Tool Kit for Entrepreneurs.* Follow him on Twitter: @normbrodsky.

EVAN KAFKA

Design Better.

Made

“If you have $340 to spend, you are going to get your freakin’ dream uniform.”

—KAREN NOSEFF ALDRIDGE, founder of cheerleader-apparel maker Rebel Athletic, which has popularized couture in a template-driven industry

PG. 66

PG. 62

HOW TO MAKE CUSTOM SKIS, SUITS, OR VEGAN SANDALS ON A GRAND SCALE

PG. 64

BUILD AN INSTAGRAM POST WORTH $10,000

PHOTOGRAPH BY **DUSTIN SNIPES**

YES, YOU CAN BESPOKE THAT

Animal-Free Footwear

"So many people can't find shoes that fit," says Annie Mohaupt, founder of vegan shoe company Mohop. "They have to either wear hideous shoes or be in pain." Customers trace their feet and upload the images on their phones; Mohop then uses the files to digitally carve the soles of its sandals and clogs.

A Better Backhand

Angell founder and mechanical engineer Paul Angell spent two decades designing big-brand tennis rackets before launching his own business to custom-make them.

TIP SHEET CUSTOMIZE

Better Bespoke

Expanding high-end design can be expensive and time-consuming, but these founders have figured it out

WHILE MANY ENTREPRENEURS go big, there's also an allure to going small—that is, small batch. The bespoke economy is booming, with customer-design businesses like suit maker Knot Standard, a 2015 Inc. 500 company, reporting 1,000 percent growth in the past two years. Technology is enabling these emerging brands to manufacture more nimbly, while social media can help them find new customers miles away from their local Main Street. Still, custom-fit companies have challenges different from the typical product-based startup. We talked with four bespoke entrepreneurs about obstacles they've faced and overcome. —KALEE THOMPSON

PRE-SLOPE PREP
Wagner Custom Skis employee Chris Robison, foreground, lines up another layer of material for a new set of skis. At this stage of production—about 40 percent completed—Robison places layers of fiberglass, carbon fiber, or aluminum on top of the skis' wood cores, before adding a topsheet. Then the skis will be pressed by the machine being readied by Scott Hargreave, in back.

WAGNER CUSTOM SKIS

How do you convince consumers you're worth the price?

Bespoke products are almost always more expensive than mass-produced ones. Just ask Wagner Custom Skis, started by Pete Wagner in 2006. Today, he has a dozen employees and a manufacturing plant in an old gas station just outside Telluride, Colorado. They produce 1,500 pairs of skis a year at a starting price of $1,750 each, while "a premium set of skis from one of the big factories might be $1,200 or $1,300," Wagner says.

THE SOLUTION *Offer a better experience, and a better story.* Wagner is an engineer who previously designed software used to build custom-fit golf clubs. "I worked with aerospace engineers on predictive engineering, doing things that you just don't see in the ski industry," he says. "It gave us a huge head start." So he made the tech a part of his ski company's narrative. Each set of skis takes 10 to 12 hours to produce over a two-week period, leading to "improved balance, comfort, control, power, and efficiency." Wagner also offers refunds or rebuilds if customers aren't completely satisfied, and when the ski season is over, customers can mail their skis back home to Telluride to be tuned. "It's different from just a one-time transaction," says Wagner, who drums up lots of word of mouth business. "You have a relationship."

SPREAD FROM LEFT: COURTESY MOHOP; COURTESY ANGELL; COURTESY HUNTER & CO. DESIGNS

Marriage Material

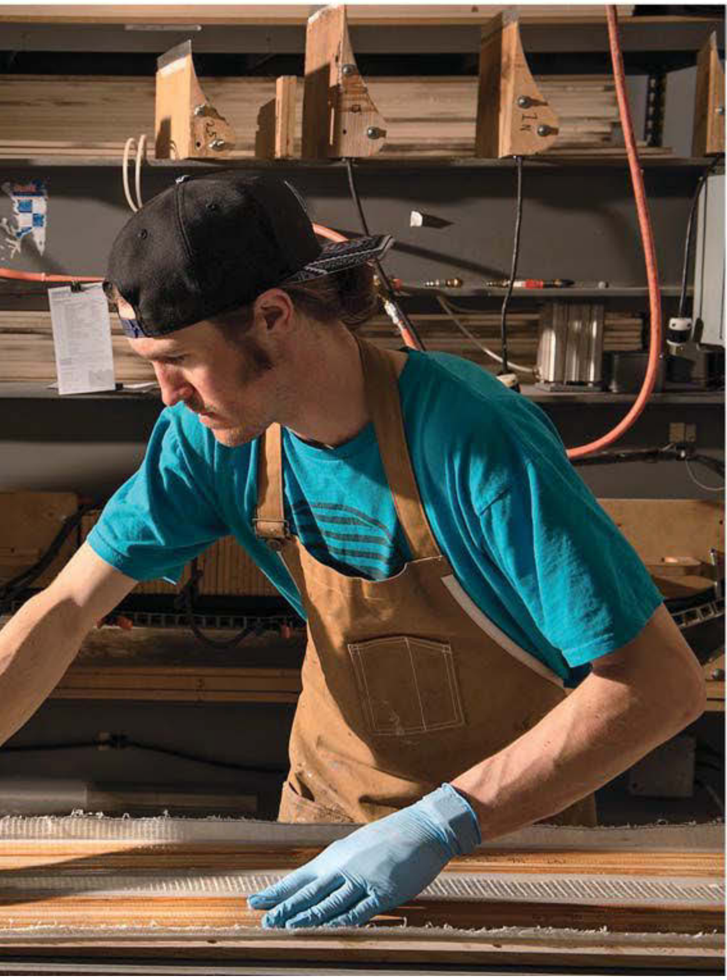
Isha Brown's custom-sewn wedding dresses are more individual, and sometimes cheaper, than mass-produced gowns. Lovey by Isha gowns start at $500; Brown averages eight to 10 pieces, including veils and lingerie, a month.

Personal Sign-Offs

Milly Itzhak started out carving her rubber-block stamps by hand before moving on to laser-engraving. Her Etsy shop, Hunter & Co. Designs, specializes in wedding-related and return-address stamps.

Furry Friends

Florida company Budsies custom-sews one-of-a-kind plush toys inspired by your kid's artwork, your own photos, or even selfies.



Photograph by TERRY A. RATZLAFF

REBEKAH SCOTT DESIGNS

How do you grow without losing focus on what you love?

"I really wanted to stay at home, sewing and being with my kids," says Rebekah Scott, a mother of four who runs an 11-year-old custom-handbag company in Valley Springs, South Dakota. Her 12 seamstresses sew bags, purses, wallets, and baby accessories, with prices of up to $260 for a "baby bundle" bag with accessories. And, like Scott, all of her contract and full-time employees work from home.

THE SOLUTION *Hire experienced help to do what you can't, or don't enjoy.* At first, Scott was content to do everything herself. But after two years, she realized she was standing in the way of her own growth. Her business doubled once she hired a marketer, who excels at the jobs she never liked. ("I myself rarely get on Facebook; it gives me anxiety," she says—but her company's strong social media presence now brings her orders from all over the country.) She still chooses fabrics and makes the first cuts herself: "As long as I can be creative with fabric, I know I won't get bored."

KNOT STANDARD

How do you manufacture big while staying small?

Knot Standard started in 2010 in Dubai, as two American friends began persuading their countrymen back home to order custom-fit suits. "It's no longer OK for guys to be agnostic about the way they put themselves together," says co-founder John Ballay. Going global with a business that usually relies on in-person fittings meant that scaling up manufacturing would be a key challenge: "If you fail one customer, your reputation is back to where you started," Ballay says.

THE SOLUTION *Never stop trying to improve production.* Knot Standard started with a single tailor in Dubai. Headquartered in New York City, it now has a staff of 60, showrooms in six American cities, and tailoring facilities in Portugal, China, Hong Kong, California, and New York. Customers either come into showrooms for fittings or submit their measurements online; tailors check the measurements on 3-D digital files before constructing the suits. The founders are constantly looking for backup facilities and new processes: "You have to make sure that you're never complacent in your production," says Ballay.

ELSA AND ME

How do you drum up business without physical wares?

"It should be as easy for women to look professional as it is for men, but without having to look like a man," says Maja Svensson, who started her made-to-measure dress company in 2012. Elsa and Me, named after Svensson's Swedish grandmother, and based in Brooklyn, New York, sells three styles of dress, for $299 each: They can be customized in a dozen ways, including sleeve length, neckline, and fabric. Since Svensson doesn't have a storefront for women to wander into, she needed creative ways to find and attract customers.

THE SOLUTION *Be your own billboard—and resort to retro sales tactics.* Svensson tried finding customers at New York City artisanal markets, but soon realized her professional network was a stronger resource. "I always wear the dresses to professional settings," says Svensson, who rubbed elbows with female executives when she worked at the Swedish consulate and at the Invest Sweden business incubator. Women would compliment her dress, and then order one. Then they'd tell their friends. Svensson started offering group fittings. "Customers provide the people and the location, I come with dresses and wine," she says. "When women tell me they feel comfortable and confident wearing our dresses, that's the best."

HOW TO HANDCRAFT A $10,000 INSTAGRAM POST

INSTAGRAM DOESN'T always seem like the best use of your limited marketing time, or budget. While insanely popular as a social media platform—400 million people use the photo app monthly—that popularity is often difficult to translate into sales. Users have proved to be selective about whom they follow, and, aside from paid ads, the app doesn't allow for clickable links within posts. But a few companies have figured out how to quickly amass huge Instagram followings—and turn followers into customers.

Men's outdoor gear company Huckberry is one. The San Francisco firm launched its Instagram campaign in earnest in September 2014. By this mid-January, it had 154,000 followers and counting, wooing them with a combination of beautiful photography and careful strategy. Here, Huckberry managing editor Zach Pina explains how to create the perfect Instagram post at right. While the return on investment is tough to track, Pina estimates that one like this could bring in $10,000 in sales—in this case, much of it from Huckberry's stock of fall watches, leather boots, and heavy-duty "duck canvas" shirts and pants. —KEVIN J. RYAN

1. Make it pop. Composition and color are essential to create posts that stand out as users scroll through their feeds. Your selfie game might be strong, but leave the photo-taking to a professional if you can. This doesn't mean you need to break the bank—while Huckberry has paid photographers, it generally gets its Instagram art from partners (Huckberry sells other clothing companies' products, for example) or employees with photography backgrounds. The most important thing: Be sure the subject matter is in line with what your followers expect from your brand.

$500
HOW MUCH HUCKBERRY HAS SPENT FOR A PROFESSIONAL PHOTO

2. Plan ahead. This post went up with early October's changing temperatures, when people are antsy for all things autumn. Create a posting calendar, and exercise restraint—you don't want to oversaturate your audience. An occasional strategy: Try drumming up interest for a sale with a preview post. Huckberry once teased a sale on vintage Rolex watches with an ambiguous macro shot, and then followed it up 36 hours later with the big reveal. The watches moved quickly—$85,000 in sales in one week. Pina references a strategy from social media guru Gary Vaynerchuk: "Jab, jab, jab, *right hook*."

2-3
MAX NUMBER OF POSTS YOU SHOULD PUBLISH PER DAY

3. Worry about the words, too. Huckberry's playful language appeals to the whiskey lovers in its outdoorsy demographic. Captions that are relatable, funny, or highly informative—even about something other than your products—make users that much more likely to Like your posts (some of Huckberry's rack up more than 6,000 such endorsements) or to tag their friends. Pina writes the posts himself: "People want to see who you really are," he says. "Find your voice, hone it, and then stay super consistent."

4. Make one link count. Individual Instagram posts won't allow you to send customers to your website, but your bio page has room for one link at a time. Use the link wisely, but with levity—and don't mention it with every post. "The less often we ask, the more we train our followers to understand that we're here to present rad content and stories," says Pina, "and we wouldn't ask anything of them unless we were really, really excited about it."

HUCKBERRY AVERAGES 32 COMMENTS PER POST, BUT THIS ONE COLLECTED
70

COURTESY HUCKBERRY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BEIGE
Not on your itinerary.
Designed for those who love open spaces, open thinking and open expression, this is where travel creates possibilities. Where style is necessary. Connectivity keeps up with you. Social scenes are vibrant. And the only direction is forward. This is Aloft Hotels.
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FLIPPING THE SCRIPT
Rebel made couture a bigger part of a dowdy business. The company's in-house fashion designers work directly with teams to custom-make cheerleading uniforms.

Cheering *for the* Underdog

Rebel Athletic is fighting a spangled, appliquéd, fashion-forward guerrilla war against an industry giant

BY LEIGH BUCHANAN

Photographs by Dustin Snipes

T HE AUDIENCE at Cheerleading Worlds 2013 expected pyrotechnics from the Cheer Athletics Panthers. Lithe and powerful as their mascot, the team of 36 teenage girls took the stage at Walt Disney World Resort and proceeded to show gravity who was boss. As gasp-inducing as their handsprings and back tucks were their uniforms: micro-crystal-drenched mesh with a muscular feline appliqué draped chest to hip. The effect was radical, as though Bob Mackie had been appointed wardrobe master at your local high school.

Karen Noseff Aldridge, founder of uniform company Rebel Athletic, had risked her startup's entire $10,000 marketing budget to establish her brand at the event, the cheerleading calendar's big kahuna. "Overnight, everybody knew who we were," says Noseff Aldridge. "Following the reveal of that uniform at Worlds, we took in over $600,000 in 72 hours."

The roughly $300 million market for cheerleader apparel is dominated by traditional sideline squads that rally crowds at high school and college games. A smaller but bigger-spending segment is All-Star—teams, like the Panthers, that live to compete. All-Star cheerleaders buy their uniforms from the specialized gyms where they train. Gym owners buy uniforms from manufacturers and sometimes act as their sales reps. As in Olympic figure skating, aesthetics matter in All-Star, where uniforms are sexier and flashier than their school counterparts.

That bias toward bling has helped make Rebel one of the most exciting companies to hit cheerleading in years. In 2012, Noseff Aldridge jump-started couture in a rut-stuck industry, employing trained fashion designers to satisfy customers' wildest flights of fancy. She operates her own factory in China, where, she says, employees are paid above-market wages to perform intricate, highly customized work in small batches, enabling her to compete on price while staying ahead in quality and design.

Rebel, based in Dallas, turned a profit after 12 months. In 2015, its revenue approached $20 million. The Dallas Cowboys and Atlanta Falcons cheerleaders use its practice wear and uniforms. "Karen has given us a whole new way to look at uniform construction and design. She's a trendsetter," says Brad Habermel, an owner of the Plano, Texas–based mega-gym Cheer Athletics, home of the Panthers. "She's brought real excitement to this industry."

But even as Rebel generates buzz and profits, a mighty opponent wants to swat it down. Varsity Brands is a $1.2 billion company owned by the $3.5 billion private-equity firm Charlesbank Capital Partners. Thanks to an aggressive campaign of acquisitions, rebate plans that make it expensive for gym owners to switch suppliers, and other strategies, Varsity Spirit, the corporation's cheer division, commands north of 80 percent of the uniform market, as estimated by competitors. The company also wields outsize influence in virtually every aspect of the industry, including the camps and—most important—the competitions, which also serve as merchandise showrooms for apparel vendors.

Having established a name in All-Star, Rebel is now making a run at Varsity's traditional sideline business, where schools present a very different customer universe. Here, too, Varsity dominates thanks to longstanding relationships with school coaches. "They grew up in the Varsity system," says Noseff Aldridge. "All they know is to buy Varsity." It's another chance for Rebel to play the "challenger brand": an upstart using unexpected tactics to tackle an entrenched player. Mark Barden, a partner in the consulting firm Eatbigfish, which coined the term, says Rebel is among the purest examples of a challenger brand he has seen. Noseff Aldridge "is incensed by the way Varsity works and wants to fix it," he says. "You need that sense of righteous indignation to fuel a small group of people up against formidable odds to go back and back and back again to try and win."

A CHALLENGER BRAND can't do something just better: It must also do something that's different—dramatically so. "Our focus is to do everything 180 degrees different from Varsity," says Noseff Aldridge, who is intense and smart, her rapid speech interrupted by occasional sizzles of irritation. She has codified that intent in Rebel's "Customer Charter." Six of the charter's 10 promises are explicit reversals of Varsity practices. For example: "We will respond to every phone call and email

within 24 business hours" and "We provide the same level of service to every size of program." Noseff Aldridge was herself—of course—a cheerleader. Born in Taiwan to a Chinese mother and American father serving in the U.S. Army, she lived with her maternal grandparents until age 5. Then her parents brought her to Fort Hood, Texas. "In a small town in Texas," she says, "you were a cheerleader or you were nothing."

She wanted to be a professional dancer. Instead, Noseff Aldridge acceded to her family's wishes and attended Southern Methodist University law school. She left shy of graduation, and in 2007, she launched a company with her former law school study partner. Fortune Denim was their super-premium jeans brand for women, with empowering messages sewn into the waistbands. Within nine months, they had racked up $1 million in sales. Jennifer Aniston and Eva Longoria wore the brand. *Elle* came calling.

So did the recession. Fortune lost 40 percent of its customers within weeks. The partners shuttered the business, and Noseff Aldridge started doing private label for brands like Neiman Marcus and Abercrombie & Fitch. She also indulged her love for dance by teaching adult hip-hop at gyms around Dallas. One day, a fellow instructor mentioned she was having brunch with Billy Smith, the owner of Spirit Celebration, an independent cheerleading and dance competition company. ("Independent" translates to "not owned by Varsity.") "I had never crashed a brunch before," she says.

Noseff Aldridge told Smith about her business. Smith, in turn, explained that he required thousands of jackets, decorated with embroidery and crystals, to use as awards at his competitions. "He said, 'Let me show you what I've bought,'" recalls Noseff Aldridge. "And he goes into the trunk of his car and brings me this jacket. And he's like, 'Can you make this?'"

Noseff Aldridge thought about her manufacturing connections in Los Angeles and China. She asked what he was

"I said, 'I think I can do better than this. And what's more, I can design a better product.'" With that, a fierce new company was born.

SHE'S A REBEL
Karen Noseff Aldridge (center) turned to cheerleading after her upmarket jeans brand fell victim to the recession.

Varsity's hardball tactics are designed to keep Rebel and other rivals off the playing field.

SHOWDOWN, SHOWROOM
A contest in Bellevue, Washington. Competitions also serve as retail showrooms. Varsity controls most of them.

paying. "I said, 'I think I can do better than this. And what's more, I can design a better product,'" she says. "Right at that moment, I got into the cheerleading-apparel business."

BILLY SMITH IS THE LINK between cheerleading's past and present. He has been part of the industry since 1980, when Varsity was itself a challenger brand. Now he's an enthusiastic supporter of Rebel and other small companies struggling in Varsity's shadow.

If you want to know how Varsity became Varsity, Smith's your guy. Talk about kismet: He lives in the former home of Lawrence Herkimer, who patented the pompom and, in 1948, popularized cheerleading through a nationwide program of summer camps. (He died last year at age 89.) Smith relates the story of how all this started, on the day when "Herkie talked to Jeff and was not happy with him," says Smith. "And Jeff quit."

Jeff is Jeff Webb, Varsity's founder, chairman, and CEO. Webb had joined Herkimer's company, National Cheerleaders Association, as a camp instructor in 1967. In 1974, Webb tried to buy part of the business, and after Herkimer refused to sell, Webb left to form his own company. Over the next couple of decades, Webb and Herkimer competed head-to-head on camps and uniforms; and Varsity branched out into competitions. Herkimer sold, bought, and resold NCA. He was no longer the owner in 2004, the year Varsity acquired NCA.

NCA is just one of dozens of cheerleading-event, -apparel, and -camp companies that Varsity has gobbled up over the years. About two dozen still operate as distinct brands under the Varsity umbrella. Others were absorbed or simply closed. (Varsity Brands is a portfolio business comprising Varsity Spirit; BSN, a team-sports apparel and equipment arm; and Herff Jones, a class-ring and graduation-apparel arm. Charlesbank bought the company in 2014 for $1.5 billion.)

Varsity's hardball tactics are structured to keep Rebel and other rivals off the playing field. All-Star cheerleaders live to compete, and Varsity owns most of the important competitions. Worlds, where the Panthers uniform put Rebel on the map, is a production of the U.S. All Star Federation, which is largely controlled by Varsity. Teams appearing in Varsity competitions can wear whatever uniforms they want. But rival apparel makers can't show their wares at those events, which are important showrooms for cheer merchandise. (Varsity's vice president of public relations responded to *Inc.*'s initial inquiry but ultimately declined to make an executive available for an interview. The company's outside PR firm did not answer several requests for a meeting.)

The events are also critical to Varsity's rebate program, Rebel's biggest obstacle. Gyms collect fees from cheerleaders to participate in competitions. Varsity typically signs gyms to two- or three-year agreements that provide a cash rebate for Varsity competitions their teams attend, which helps those gyms' bottom lines. That rebate extends to purchases of Varsity apparel. Noseff Aldridge estimates gyms get anywhere from $1,000 to more than $20,000 back if they buy uniforms and practice wear exclusively from Varsity. (The average price of an All-Star uniform is between $200 and $300.) Varsity also owns gyms, which Rebel can't touch.

Some small competitors just throw up their hands. Tish Reynolds launched Just Briefs, a maker of cheerleading practice wear, in 2005, and grew the business to $3 million. But "Varsity kept telling [customers] you've got to buy your uniforms from us," says Reynolds. Varsity acquired Just Briefs in 2010 and closed it, even though it hired Reynolds as part of the deal. She recently left to start Just Briefs Apparel. Like virtually everyone interviewed for this article, Reynolds praised Varsity for its contributions to the industry and says it sells high-quality products. "I just think Jeff [Webb] is very driven," says Reynolds. "There is enough out there for all of us. Why make it so difficult? It's like he has to have 100 percent. He can't be happy with just 95 percent."

CHALLENGER BRANDS typically build their strategies around distinctive, hard-to-replicate strengths, says Barden. Noseff Aldridge is the David in this battle, small but wielding a mighty slingshot. She is backed by a successful family business

JERRY HUGHES

that loaned her close to $2 million—since repaid—for her startup. That business is Pacific Northern, a manufacturer of retail jewelry displays with 95 employees in Dallas and some 2,000 in China. Noseff Aldridge's mother, Tina Noseff, and two uncles, Richard and Eddie Lee, launched it in 1988.

More important to Rebel's long-term success is the groundwork her relatives laid for operating in China. Connections there allowed Noseff Aldridge to buy and run her own factory in Guangzhou Province. Instead of the typical high-volume, low-cost approach, she has adopted Pacific Northern's model of rapid prototyping and using teams to work on small orders. Rebel also differs by auditioning sewers and production workers and paying them better than local rates. Even with higher human capital costs, outsourcing allowed Rebel to undercut Varsity by 25 to 30 percent, says Noseff Aldridge.

Challenger brands also take an outsider's view by applying insights from other industries. That's true of Rebel, whose founder got her start in premium jeans. The word *couture* was not a part of cheerleading's lexicon until Rebel popularized it. "If you have $340 or more to spend, you are going to get your freakin' dream uniform," says Noseff Aldridge.

Couture customers—who make up 40 percent of Rebel's business—speak in person or via Skype with a designer. They exchange images and ideas until the customer is satisfied. At that point Rebel creates a prototype for customer approval, makes adjustments, and sends out a rep or a fit kit to collect measurements for every team member. "We bring that concept to life one time for your team, and then it is buried and never done again," says Noseff Aldridge. Rebel employs 13 creative designers and is hiring more. All are fashion school graduates who experiment lavishly with crystal mold shapes and dyeing processes. The company has created a number of proprietary fabrics, as well as innovations like the "bodyskort," a one-piece, fitted uniform with a skirt in front and shorts in back; and the "locked skirt," with panels that prevent the garment from flipping upside down when its wearer does.

Challenger brands also need allies, says Barden, to "find synergies and efficiencies, and hope to make a bigger impact." Last fall Noseff Aldridge formed the Rebel Alliance to strengthen relationships with independent events producers and support small cheer-products suppliers. Among other things, Rebel has offered to help Alliance members source in China and to provide marketing, legal, and financial consulting. "Anything we can do to help make their event better, their gym better, their business better or stronger to compete against Varsity, we will do it," says Noseff Aldridge.

The Alliance's birth coincided with one of Varsity's most audacious moves—and for Rebel, its most shattering. In October, Varsity—in a deal widely criticized on industry chat boards—acquired JAM Brands, the second-largest event producer and by far Rebel's most important marketing partner. Just a few months earlier, JAM Brands co-owner Dan Kessler had explained why his company had chosen Rebel to be its exclusive uniform sponsor. "They were edgy. The look was real," said Kessler. "We felt there was some good synergy there."

That synergy vanished last fall, while Rebel was negotiating to renew the partnership. "Suddenly those talks just fell apart," says Noseff Aldridge. A few weeks later, Varsity and JAM Brands announced their union.

JAM Brands ran most of the high-profile competitions that Varsity doesn't own. Together, they control roughly 90 percent of the major events, say competitors. The JAM Brands competitions had been Rebel's most effective platform for marketing to elite cheer teams. "Not partnering with an event company is one thing," says Noseff Aldridge. "But being locked out of partnering with an event company—knowing that a competitor is now going to be in your booth space showing its product—it's a double whammy."

One notable trait of challenger brands, says Barden, is their ability to turn constraints into opportunities. Barred from major competitions, Noseff Aldridge took a page from the book of another challenger brand, Kenneth Cole. In 1982, unable to afford a space at a trade show for his upstart shoe company, Cole did business from a borrowed truck nearby. City rules forbade his parking there unless he was filming a TV show or movie. So Cole made the full-length film *The Birth of a Shoe Company* while hawking his wares.

Noseff Aldridge's spanking new division is called Rebellion Rising Productions. On the weekend of February 19, her crew—with a police escort and film permit in hand—will park a tour bus outside the Dallas venue of the NCA All-Star Nationals, one of Varsity's biggest events. Cheerleaders and their parents will be welcomed onboard the "Rebel Dreambus," which will be fitted out like a 1950s movie-star dressing room and wrapped in Rebel branding. There they can try on and buy merchandise and, of course, be interviewed for a documentary.

The subject of that documentary? Bullying. "Isn't that crazy?" says Noseff Aldridge, laughing.

—

LEIGH BUCHANAN *is an* Inc. *editor-at-large.*

THINK DIFFERENT

The archetypal challenger brand is, of course, Apple, whose slogan is the challengers' rallying cry. Others include:

Challenger: **Snapple**
Challenged: **Coke and Pepsi**

In addition to appealing to an increasingly health-conscious market, Snapple played up its homemade origins and quirky personality. (Wendy, "the Snapple Lady," was a far cry from faceless Big Soda.) It also gained traction working with small distributors serving restaurants and delis, rather than with supermarkets, where its competitors held sway.

Challenger: **Under Armour**
Challenged: **Nike, Adidas**

Having popularized the word *wick*, Under Armour competed on product innovation, including compression garments that help muscles recover quickly. Initially unable to afford mega-buck, mega-athlete endorsement deals, the company now partners with emerging stars, as it did three years ago with Stephen Curry of the Golden State Warriors.

Challenger: **Method**
Challenged: **Procter & Gamble**

Method's elegant designs emphasized eco-friendliness, unlike those of the chemical competition. Method used a limited budget to go big rather than frequent, binding a multipage booklet titled "People Against Dirty" into women's magazines.


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World Spirits Competition
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CNN
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MOJ MAHDARA, CO-FOUNDER AND CEO OF BEAUTYCON

Favorite Things

AS CEO OF BEAUTYCON MEDIA, which sells subscription boxes of next-generation beauty products and organizes conventions for their young fans and creators, Moj Mahdara must constantly mainline the internet. "I wake up at 5:50 and check Instagram, Snapchat, and Twitter direct messages," she says. When she's not traveling for the company—whose revenue, she says, will hit $10 million this year—she's usually at Beautycon's L.A. offices. There, everyone but Mahdara has a workspace. "I get stuff done only when I sit in someone else's room and see what they're doing," she explains. *Inc.* pried the peripatetic Mahdara away from her work and smartphone so she could tell us what keeps her going.

By SHEILA MARIKAR Photographs by BARTHOLOMEW COOKE

WHAT I REQUIRE

PERSIAN BLACK TEA (Sadaf, to be precise). Early every morning, while scanning the Web on her iPad, Mahdara sips a mug of Persian tea. "I grew up drinking Sadaf black tea with cardamom," she says. "No milk, no sugar. I have to have it to start my day. I'm always packing bags of tea—I have tea on me at all times."

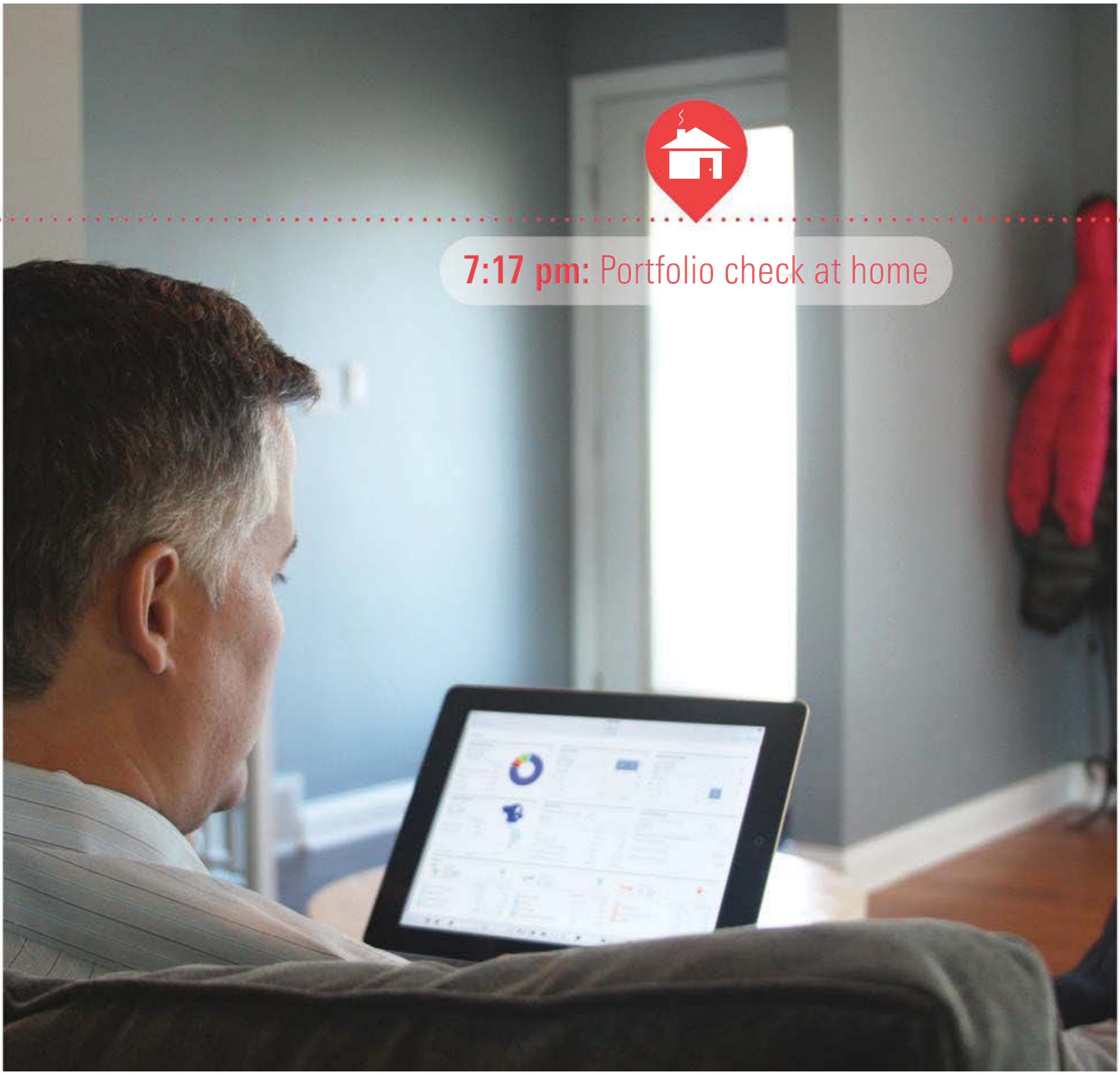
WHAT ALWAYS INSPIRES

GOPRO. Mahdara loves the ocean, and her GoPro is a favored companion in the water. "I have it when I go paddleboarding, or swimming with turtles," she says. How can she use it while keeping up with sea creatures? Easy, she says: "I strap it to my head." The current background of her iPhone is a photo of turtles on the ocean floor—taken, of course, with her GoPro.

WHAT I DESIRE

ROLEX 1802 DAY-DATE WATCH, vintage 1970s, with a red lacquered dial. "They made only, like, 100," Mahdara says. "I love the lightness of the older Rolexes—they're not that gaudy, they're not that showy. They're just beautiful." Currently, this stickler for punctuality alternates between a 1975 Omega Seamaster and a 1973 Rolex Perpetual Datejust.

ILLUSTRATION: MICHAEL HOEWELER. WATCH PROVIDED BY ROBERT MARON



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DESIGN STORY

Jim Brett

Think Outside Your Box

Good ideas can come from anywhere—and anyone

ONE OF MY COMPANY'S best recent breakthroughs came from a conversation with someone completely outside the retail world: a health care consultant named Ellen, who happens to be my sister.

A few years ago, I was working on the creation of West Elm Market, a smaller store that would sell things other than home furnishings. I wanted these markets to carry staples you could find in a traditional neighborhood corner store, things like laundry soap and peanut butter. I figured we could stand out by featuring small-batch, artisanal versions of these products.

I told my sister I felt nostalgic for the days when you knew your neighborhood shopkeepers and they knew you, and I thought my customers might share that feeling. But my saying I'd stock the markets with artisanal versions of anything a customer might need led Ellen to challenge me: Wouldn't people prefer a smaller selection of local goods to an overwhelming collection of products from all over?

Ellen had seen the growing demand for local, consumer-centered products in a different industry—concierge medicine, which is becoming more popular for those who can afford it. That demand is due to several factors, including the stressful and alienating user experiences common to the health care system, and the government overhaul, which requires more active attention from consumers.

Ellen believes these factors are making people crave a better relationship with their doctor. Patients want their primary care physician to be the center of their community-based health care. And her arguments made me realize that embracing the "local" was not a retail-specific trend but a major lifestyle shift across consumers' lives. Soon the idea of selling localized products started to make more sense to me than offering a grocery store's worth of quotidian goods.

Ultimately, this led me to create a "West Elm Local" strategy for all of our U.S. and Canadian stores. To truly be local, we can't run this program out of our corporate office, so each store manager is responsible for finding local artists and makers, and for creating product assortments that reflect their communities. We now carry more than 4,000 local products from more than 500 makers.

Since my sibling-inspired brainstorm, I've noticed many of our makers using a similar approach. I particularly admire that of Andrew Molleur, a fine arts ceramic designer in Kingston, New York, who takes in as much feedback as he can. After thinking through a design—what he calls "failing in his head"—Andrew brings a rough draft to two groups.

In Andrew's micro group are his closest relations—friends, loved ones, and those working in his field, who can comment on the logistics of the work. His macro group includes those who can come at his design from a different perspective—former colleagues and acquaintances in unrelated fields. In both groups, Andrew includes only people who aren't afraid to say no to him. Together, the micro and macro insights become part of his design strategy.

Getting out of your own head—and out of your business circles—to workshop your ideas is the true path to innovation. You just have to believe that good ideas can come from anywhere. Don't stick to people who think like you; creative conversations aren't meant to be lovefests. Engage with people who aren't afraid to challenge your thought process or criticize your ideas.

No matter the size or nature of your business, confining creative communication to like-minded colleagues is not apt to teach you new things. If you think of your original idea as kindling for a potential bonfire, diverse commentary can create the spark.

Jim Brett is president of West Elm, the Brooklyn, New York–based home-furnishings retailer, and a proponent of local and Fair Trade–certified products.

ERIK TANNER


Inc.
Go Ahead, Be Evil
AMAZON'S HIDDEN MASTERMINDS
INSIDE THE VICIOUS, VICIOUS CHEERLEADER WARS
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Decoding the coveted H-1B visa PG.80

Innovate

Invent.
Experiment.
Disrupt.

PG. 86

"Some of the folks who work for us—I wouldn't want to be on their bad side."

—GREG CRADDOCK, CEO of Patriot Group, a military and intelligence mission-support contractor

A DAY AT THE OFFICE A former Marine who is now one of Patriot Group's 200 government contractors training for a war-zone mission.

PHOTOGRAPH BY **CHRISTAAN FELBER**

DECODING THE H-1B

The visa for hiring foreign employees has never been more coveted—or more complicated

By ZOË HENRY

AFTER ESCAPING FROM what was then Czechoslovakia as a political refugee in 1986, Jiri Stejskal dreamed of starting a company that could foster better communication across cultures. Today, Stejskal's Cetra Language Solutions is a 35-person translation company based outside of Philadelphia. His company's competitive edge is the same thing that makes it so difficult to staff: Many of the best managers for translation projects reside overseas. "Our business is global by definition, so we need to have people who have the experience of living abroad and are native speakers," says Stejskal.

It's up to Stejskal to get them here—which is why he is one of tens of thousands of business owners vying for H-1B visas. The H-1B program offers temporary nonimmigrant visas for specialized foreign labor; it has been run since 1990 by U.S. Citizenship and Immigration Services to fuel the growth of American businesses. Every April, USCIS begins accepting petitions from hundreds of thousands of companies hoping to get one or more of the 85,000 three-year visas that are issued annually.

Landing an H-1B can be laborious, frustrating, and expensive. Petitions cost upward of $1,000, and often are plucked for consideration from a lottery. Even those that make it through can ultimately be denied for a clerical error, or get stuck in a months-long purgatory. "It's a broken process," says Gopal Krishnamurthy, founder of Plano, Texas–based Visual BI Solutions, which had four petitions pending for months. "The administrative burden on companies is unbelievable," he says.

In recent years, competition for H-1Bs has only escalated. In 2014, India-based outsourcing giants including TCS and Infosys scooped up more than 16,000 of the visas. The situation is so bad that, last year, Alphabet (Google's parent company) and Facebook spent millions lobbying Congress for immigration reform.

"Small businesses are at a competitive disadvantage," says Delisa Bressler, an immigration lawyer at Foster LLP. Large companies often flood the H-1B application pool, while smaller businesses with less financial muscle make fewer bets on the people who are most critical to the future of their business. "A large company with operations abroad has the benefit of candidates in the U.S. and from abroad to select from," says Bressler. "But a small employer is going to typically have one candidate in mind whom they've grown to love."

To help you optimize your odds, here's a primer on the H-1B process.

PROOF IS IN THE PAPERS

The more evidence you can provide of the legitimacy of your business, the better. Even though annual revenue and tax reports, lease documents, and purchase agreements are not required, they can only help bolster your petition. Make sure to plan ahead: You also need to file a Labor Condition Application with the Department of Labor, which can take seven workdays to process.

▼

REQUIRED DOCUMENTS

- ☐ A letter from employer or attorney
- ☐ Proof of employee's higher education degree
- ☐ Copy of contract (final or proposed) between employer and employee
- ☐ Copy of the employee's passport
- ☐ Petition for nonimmigrant worker*
- ☐ Certified Labor Condition Application*
- ☐ A license or permit specific to employee's job (if applicable)

**A COMPREHENSIVE LIST OF USCIS-SPECIFIC DOCUMENTS CAN BE FOUND AT USCIS.GOV/FORMS.*

▼

INSIDER TIP

You may think providing a link to your website is sufficient, but go a step further and submit glossy brochures and printed marketing materials. This government office loves a paper trail.

▼

40-400

The range of pages an H-1B petition could include, according to immigration attorney Delisa Bressler

SPREAD: ILLUSTRATIONS: ALEX EBEN MEYER (4)

THE PRICE OF ENTRY

H-1Bs do not come cheap. The filing costs alone can be prohibitive for a startup, and what at first may seem like a minimal investment can quickly turn into an endless stream of fees. For example, if USCIS has doubts about your business or the candidate, it might make a "request for evidence," which can cost from hundreds to thousands of dollars.

▼

	FEWER THAN 25 EMPLOYEES	*MORE THAN 25 EMPLOYEES*
STANDARD FEE	$325	$325
ANTI-FRAUD DETECTION FEE	$500	$500
COMPANY-SIZE FEE	$750	$1,500
TOTAL	**$1,575**	**$2,325***

** RATE VARIES PER STAFF SIZE AND COMPOSITION.*

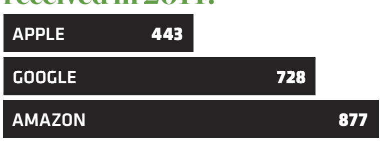
▼

INSIDER TIP

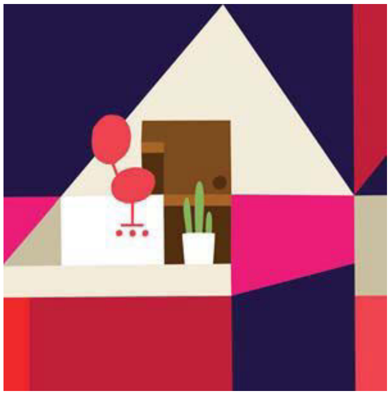
If you're willing to **shell out an extra $1,225,** you can bump yourself to the front of the line. This premium processing fee gets your petition reviewed by USCIS before the rest of the lot, assuming your application gets chosen in the lottery.

▼

The number of H-1Bs the top U.S. tech companies received in 2014:



SOURCES: U.S. CITIZENSHIP AND IMMIGRATION SERVICES; LAWTRADES.COM; UPCOUNSEL



MAKING THE CASE

Don't bother pursuing an H-1B if you're looking to hire an average accountant. H-1Bs aren't for just any prospective employee—they are reserved for specialized talent filling a specialized position. The onus is on you to prove that the skill set of the international employee is so specific that you couldn't fill the post with someone already on U.S. soil.

▼

TOP POSITIONS AWARDED H-1Bs IN 2014*

Computer science	**203,425**
Architecture, engineering, surveying	**29,103**
Administrative specializations	**18,905**
Education	**18,680**
Medicine, health	**15,358**

▼

INSIDER TIP

If you can find an international candidate with a U.S. master's degree or PhD, you'll double your chances of his or her making it through the lottery: 20,000 of the 85,000 H-1B visas are reserved for employees with advanced degrees.

▼

14

PERCENT of H-1B visas were awarded to small businesses in 2014.* In 2015, 64 percent of 233,000 H-1B petitions were rejected.

**TOTALS INCLUDE VISA RENEWALS, NOT JUST NEW APPLICATIONS.*

YOU'RE NOT ALONE

There are plenty of outside services to tap if you're looking for extra guidance. Immigration lawyers are an ideal, but pricey, option, while third-party startup services like UpCounsel and LawTrades.com, which connect startups to lawyers for a transaction fee, are less expensive. Remember, once an application is submitted, it's difficult to make any changes.

▼

OUTSIDE ASSISTANCE

☐ Immigration lawyer	**$2,000–$5,000**
☐ LawTrades.com	**$1,200–$3,000**
☐ UpCounsel	**$1,870–$2,875**

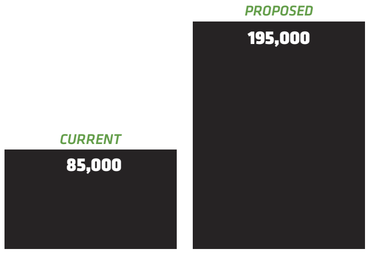
▼

INSIDER TIP

Failing to check a box on a petition can get it sent to the "rejected" bin. An extra set of eyes to triple check every last detail—an outside lawyer or proofreader—might be worth the cost.

▼

The proposed Innovation Act of 2015—backed by Silicon Valley heavyweights like Facebook—could expand the petition cap:



TIP SHEET FUTURE-PROOF

Manufacturing's Next Act

Disruptive technology is changing how companies make things. Don't get left behind

FLOUR. EGGS. YEAST. They may not sound like the ingredients that would drive a company to embrace the bleeding edge, but for King's Hawaiian, they are. "Raw materials are where manufacturers love to cut, but there's a consequence," says John Linehan, who heads strategy at the 66-year-old breadmaker. "You get a nice margin hit for a quarter or a year, and then you pay for the lower quality with consumers later."

Instead, the Torrance, California, baker doubled down on technology, injecting the same data-gobbling sensors and sophisticated computers into its manufacturing line that you might expect at a tech lab. In the past, supervisors had relied on hand-written information from people working on the floor to flag maintenance issues or adjust line speeds. Today, much of King's Hawaiian's production is automated, more accurate, and less dependent on oversight. The $300 million company has enjoyed

PROOF OF CONCEPT
Local Motors' Strati is the first car ever produced using 3-D-printed parts.

IN THE BLINK OF AN EYE
Local Motors printed and assembled the Strati in 44 hours. The company wants to reduce that production time to 12 hours.

PRINT RUN
Seventy-five percent of the car is made by 3-D printing.

THE ROAD LESS TRAVELED
Most cars have 20,000 parts; the Strati has only 50.

COURTESY LOCAL MOTORS

Automation Nation
Manufacturers get bullish on next-gen technology

23%
The increased annual revenue companies expect to see from the use of technologies like advanced robots, 3-D printing, and Wi-Fi-enabled smart sensors.

35 Percent
of manufacturers already use smart sensors to collect and analyze data from factory equipment. Another 17 percent plan to implement the technology by 2018.

more than a decade of sustained growth, almost tripling its capacity in the past six years—all while the food industry has generally stayed flat.

Welcome to today's manufacturing. Factories of all sizes and sectors are now deploying 3-D printing, augmented reality (AR), smart sensors, and lightweight, collaborative robots to create faster, leaner, more cost-effective systems—without putting a dent in product quality.

Interactive 3-D-tech company Ngrain is one of several bringing AR to factories. Workers aim smart eyeglasses or a specialized tablet enabled with Ngrain software at a piece of equipment and instantly see an overlay of data, including maintenance records and assembly instructions. The system automatically reports glitches or a need for repairs and, according to the company, has let manufacturers slash inspection times from days to minutes. "Most equipment inspections are still done completely by hand, with a clipboard and pen and paper, and someone saying, 'Hey, that looks like a scratch,'" says Barry Po, director of product management at the Vancouver, British Columbia–based company. "But AR takes all the subjectivity out of it."

> "AR sounds like science fiction, but small manufacturers are finding it's not as inaccessible as many people think."

Now Ngrain is partnering with Boeing in a project to test its AR on tablets at a factory where the aircraft maker is producing a component for the 787 Dreamliner. Manufacturers often put off quality inspections until products go through the whole assembly line; when something goes wrong, they're left with the problem of figuring out where on the line the error occurred. At Boeing, the AR tablets will instantly flag dips in quality along the line, so technicians can make adjustments before any subpar parts are churned out. "AR sounds like science fiction," says Po, "but the tech is here, and small manufacturers are finding it's not as inaccessible as many people think."

As more manufacturers move new technology onto their factory floors, they're also finding creative ways to use it. Three-dimensional printing was once dismissed as a fad, but Phoenix-based Local Motors is using it to manufacture parts for the Strati, a new, two-passenger electric car. A giant printer spins out car pieces—its main body and chassis—from layers of black plastic reinforced with carbon fiber. While the average car has about 20,000 parts, the Strati has only 50. "Now is the time to rethink how things get made," says CEO John B. Rogers, who built the Strati to prove that 3-D printing can be a much faster way to produce a car. "Manufacturing is ready for a revolution."

—KATE ROCKWOOD

Upgrading the Factory Floor

Modern manufacturers share tips for navigating your next tech investment

TECHNOLOGY SHOULD SIMPLIFY "Our most successful customers are the ones who pick something that's simple and intuitive for workers," says Brian Mullins, CEO of Daqri, a Los Angeles–based AR developer whose Smart Helmet (above) integrates augmented reality, sensors, and recording devices into a hard hat, letting workers see data overlaid on their physical surroundings.

HUMANS LEAD THE WAY A treasure trove for determining which tech to invest in: on-the-ground workers. Breadmaker King's Hawaiian may have partnerships with Georgia Tech and University of Georgia to help direct its manufacturing strategy, but nothing replaces real dialogue with its factory workers. Every year, executives take six of them to dinner—for enlightenment. "I always walk away with new ideas and learn new things," says King's Hawaiian executive VP John Linehan.

ISOLATE, AND THEN TEST The more tech tools you introduce at one time, the harder it is to determine what's working and what's not. Local Motors CEO John B. Rogers recommends staggering the testing of new technologies, so you don't invest in the wrong problem solver.

5.6M
3-D printers expected to be shipped worldwide in 2019.

4 Percent
The estimated cost savings manufacturers enjoy when they bring 3-D printers into their supply chain.

48%
of manufacturers feel well prepared for the latest tech revolution hitting their industry.

SOURCES: MCKINSEY, PWC, GARTNER, ROBOTIC INDUSTRIES ASSOCIATION

JOSEPH ARMARIO/COURTESY DAQRI

Inside the deadly, controversial, highly secretive, and crucially important private warfare waged by Patriot Group

→ BY DAVID WHITFORD

Photographs by Christaan Felber

Mission

Critical

CORPORATE DEVELOPMENT Two Patriot Group employees—one a veteran of the Air Force and the other an ex-Marine—practice SWAT-like "room-clearing techniques" to be used in hostile environments, at a training facility in Midland, Virginia.

he says, "nothing can prepare you for when you do in actuality receive that call."

He excused himself from the dinner table. It was as he feared: One of his people—new to Patriot Group but not inexperienced; an Iraq war veteran, "not one to get caught with his guard down"—had been killed overseas, in what Craddock will describe only as "a coordinated enemy attack." Five years in business, and this was Patriot Group's first fatality. It probably won't be its last.

Greg Craddock was just sitting down to Christmas dinner at his mother-in-law's when his phone rang. He glanced at the screen—one of his managers calling. Surely it could wait. Then, immediately, a second call. Then a text. "Very critical" is the only part he remembers.

Bad news can land at any moment—every CEO knows that. "Small business is the animal that never sleeps; it calls to you in the middle of the night," Craddock says, and we all know what he means. But Craddock knows better than most. His company, Patriot Group International, a two-time Inc. 500 honoree with $33 million in annual revenue, is a government contractor. His customers include the Defense Department and various spy agencies. He has about 200 people on the payroll, most of whom go to work every day in places where they could very well get shot or blown up—Iraq, Afghanistan, Ghana, Djibouti, Somalia, and Libya, to name a few. They guard buildings, protect VIPs, train foreign soldiers, and do a lot of office work, too: "Our specialty," says Patriot Group COO Rob Whitfield, "is providing sometimes common services in real crappy places."

At 46, Craddock is a big man with clear eyes, a shaved head, a stubbly jaw, and a crushing grip, and he's not naive. He's a former Army Ranger and military security operative, after all, who spent years in conflict zones overseas. "Still,"

PATRIOT GROUP'S headquarters occupy a second-floor suite in an ordinary office park in Warrenton, Virginia, about 50 stop-and-go miles west of Washington, D.C. The office decorations are less ordinary: a print depicting a nighttime helicopter landing in Afghanistan; a photo of the Stars and Stripes being raised at the U.S. embassy in Kabul; a poster filched from liberated Baghdad, with images of Saddam Hussein and two of his "derelict sons," per Craddock; and a framed Iraqi flag, commemorating Craddock's service with an elite government security force that protects U.S. intelligence officers abroad.

As a veteran, Craddock knows about war—what it is to confront bad guys face-to-face, to lose a friend in combat, to endure long separations from family, and then to wonder, once you're out, whether you'll ever again do anything as focused, as intense, as in-your-face *important* as what you did in uniform. As an entrepreneur, he also knows about business—what it is to risk everything on a proposal that goes nowhere, to be cut off by your banker, to drain your 401(k)—and ultimately what it feels like to succeed in a notoriously corrupt industry that's closely regulated, intensely scrutinized, rife with unsavory characters ("Some of the folks who work for us—I wouldn't want to be on their bad side, consistently"), and beholden like no other to the fickle winds of geopolitics.

Craddock is a professional reticent. He won't identify publicly the security force he was assigned to abroad. Nor will he say anything about the attack that killed one of his employees—not how, not where, not why—other than, "It was the kind of thing that can happen to anyone at anytime in those types of areas." (On that Christmas Day, in 2014, al-Shabaab militants killed three African Union peacekeepers and one foreign contractor in an attack near Mogadishu airport in Somalia; Craddock had no comment on that particular incident, either.)

Many details about Patriot Group's business are shrouded in secrecy. Intelligence contracts, for instance, don't appear on public databases, where much of what we *can* glean about Patriot Group's work is blanketed in bureaucratic jargon. For instance, in June it won a Defense Department subcontract worth $1 million, in return for "AWG support"—helping the Army's Asymmetric Warfare Group, an anti-insurgent unit.

If you're a bomb defuser able to travel on "very short notice," Patriot Group may have a job for you.

PRIVATE SERVICE
After serving as an Army Ranger and a security operative, Greg Craddock went into business with two military buddies.

The Join Our Team page on Patriot Group's website offers other clues. Are you a culinary professional with a top-secret security clearance who can handle "austere environments"? Or an explosive-ordnance-disposal specialist—a bomb defuser—able to travel on "very short notice" and willing to risk "limited exposure to chemical, biological, radiological, and nuclear hazards"? If so, Patriot Group is hiring.

And while he's secretive about specific times and places, Craddock broadly describes building a business that, like all government contractors, must be opportunistic. Armed security is a core offering, as is weapons training and intelligence analysis, but Patriot Group's résumé ranges from the glamorous to the bizarre. It has analyzed geopolitical threats for a global food company; guarded a Washington construction site for an intelligence agency; cast former soldiers and diplomats for training exercises carried out over several days in simulated urban war zones ("It's like putting together an *Oceans Eleven* team," says Whitfield); guarded a presidential candidate on the campaign trail (more on that later); and trained film crews before they embedded overseas. One such crew, making a documentary about military dogs called *Glory Hounds*, put Patriot Group's training to the test when "we actually did get blown up," says cameraman and former Marine Craig Constant, who rushed to apply a battlefield tourniquet to his colleague. "What they taught me was invaluable."

The attacks on September 11, 2001, sparked a gold rush, and things got ugly. There was torture: Personnel from private contractors CACI International and Titan allegedly took part in one-third of the documented events at Abu Ghraib, according to an Army investigation. Murder: Four former employees of Blackwater are in prison for their role in the 2007 killings of 14 unarmed Iraqi civilians in Baghdad's Nisour Square. And greed, outrageous greed: According to a 2011 report by the Commission on Wartime Contracting, "at least $31 billion, and possibly as much as $60 billion, has been lost to contract waste and fraud in America's contingency operations in Iraq and Afghanistan."

The rush is over now. Total Defense Department spending on contractors—including those supplying weapons and R&D as well as services—peaked at $412 billion annually, and is down more than 30 percent since 2009. (See sidebar, opposite page.) Among the factors: troop drawdowns, shrinking budgets, and a deteriorating business climate marked by intense congressional scrutiny, stricter oversight in the field, and heightened public distrust. Contractors dug themselves a very deep hole over the past decade and a half; they're still clawing their way out.

Yet the world remains a dangerous place. Where it was mainly al-Qaeda before, now it's ISIS, too; where it was mostly Baghdad and Kabul, now it's also Paris and San Bernardino. Terrorism of all kinds, rogue dictators, loose nukes, and cyberattacks are compounding the load borne by already strained conventional forces. That's the reality Army general Martin Dempsey, former chairman of the Joint Chiefs of Staff, was speaking to in 2012 when he told an industry gathering that what contractors provide the military is "no longer a niche capability—it's probably part of our core."

Ironically, as spending drops, the relative importance of the private sector grows. Contractors deliver continuing access to talented people the military can't otherwise retain and instant access to short-term skills. "You have to look at what capabilities you want to keep in-house, and which ones you want to pay big money for," says Marine general James Lariviere, executive director of the International Stability Operations Association, a trade group on whose board Craddock serves.

> When contractors die, they don't return in flag-draped coffins. Their funerals highlight the tensions inherent in straddling two worlds.

Craddock's company does this on its own and as a sub for, among others, mega-contractors Lockheed Martin and Northrop Grumman. Now that Patriot Group has outgrown certain small-business set-asides, it increasingly finds itself competing against those same big companies head-to-head.

On the one hand, then, Craddock's a typical CEO, with ordinary CEO concerns—landing the big customer, managing growth, adapting to shifting markets, overseeing a high-performance work force, maximizing profit. On the other, he occupies an alternative universe, largely hidden from public view, one where CEOs sometimes outfit their employees with deadly weapons, send them off to war, and live with the knowledge that mistakes, bad luck, and circumstances beyond their control aren't just costly but sometimes even fatal.

"YOU HEAR 'CONTRACTOR' and you think 'mercenary,' and Blackwater's not far behind," Craddock says. "There's a profound stigma around what we do." That's a profound understatement.

One service the Defense Department decided to outsource in 2013: training counternarcotics agents in Kabul in the finer points of aerial druglord surveillance. Patriot Group won a piece of that contract—only to have one airbase training session interrupted when a Taliban fighter dressed in an Afghan army uniform sprayed the classroom trailer with bullets. (Three U.S. contractors working for a different company and one Afghan national were killed in the January 2015 attack.)

Threat levels rise and fall. Budget allocations ebb and flow. Public opinion swings back and forth. "But there are certain requirements that will not go away," says Craddock. And that presents an opportunity. In 2010, Craddock and two of his military pals went after it. They bought a dormant company

JOB HAZARDS
Smoke rises in Kabul during January 2015 protests following the shootings at French magazine *Charlie Hebdo*. Earlier that month, Patriot Group employees survived a Taliban gunman's attack at a local airbase.

NEWSCOM

with a good name. They worked their contacts in the intelligence community, emptied their bank accounts, teetered for two long years on the brink of insolvency, and finally landed a game-changing deal. How does the stress and fear of running a business compare with actual warfare? "It's a different type," Craddock says, "but no less profound, and I would say it's more lingering." In business, the battle never ends.

CRADDOCK WASN'T RAISED to serve in uniform. He grew up in tiny Gretna, Virginia; his dad was a teacher, and his mom worked at a radio station. He loved football, and played safety at nearby Ferrum College, but he was never a star. What he loved most was the camaraderie. After graduation, in the summer of 1992, he joined the Army—for "the flag, apple pie, serve the country," absolutely, but also because "I wanted to be part of something again."

After basic training at Fort Benning, Georgia, Craddock kept going, through infantry training, Airborne School, and what was then called the Ranger Indoctrination Program—a brutal sequence of ever-escalating challenges that about 60 percent of aspirants fail to complete. He "did all those things, very well," says Al Buford, Craddock's former Ranger platoon sergeant and now his business partner. He earned his Ranger tab in 1994, and served out his five-year enlistment at Fort Benning. His career goal at the time was federal law enforcement, but after he left the Army, he was turned down everywhere he applied. He bided his time, working as a school counselor and a management trainee for a home-remodeling company, until a friend got him an interview with that unnamed security unit. Three months after 9/11, Craddock was on a plane to Afghanistan, hurtling toward his first taste of active duty overseas.

The mission was rewarding, but the travel was lousy and the risks were extreme. He was married now, with two small children, and he was restless, increasingly impatient with the government system of professional development that favors seniority over capability. He came home, worked for a small military contractor, and finally struck out on his own. "I wanted to be leading," Craddock says. "At some point, I got the feeling that I and some like-minded individuals could do a better job."

One of those individuals was his buddy Whitfield, a former Marine "designated defensive marksman." (He means sniper.) Whitfield grew up wanting to join the Army, but when he got to the recruiting office, the recruiter was on his lunch break, so he joined the Marines instead. "When do you want to leave?" the recruiter asked him. "Is tomorrow too soon?" he replied.

Another was Buford, who describes himself as "a rifle and body-armor guy, with a rucksack on my back and a long way to walk." The three pooled

CONTINUED ON PAGE 97 ►

Government spending on personnel-based contracting is falling—but it's still big business for these players.

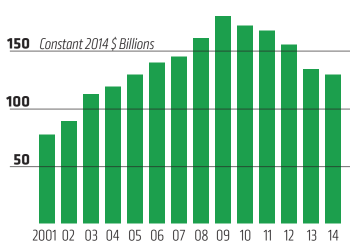
→ For as long as American soldiers have gone to war, private contractors have gone with them. General George Washington hired them to drive supply wagons. During the Civil War, the Union Army relied on them for construction, labor, and transport. World War II created jobs for an astonishing 734,000 of them.

With the Gulf War, the Balkan wars, and the post-9/11 quagmires in Afghanistan and Iraq, contractors for the first time began outnumbering soldiers. They built bases, prepared meals, manned security details, and interrogated prisoners. A 2013 Congressional Research Service report counted 107,796 Defense Department contractors (including 33,107 U.S. nationals) in Afghanistan, compared with 65,700 U.S. troops.

Budget cuts and troop reductions have shrunk the market in recent years. According to DefenseNews, all but one of the top 10 defense contractors in the world reported falling revenue in 2014. That's created a wave of mergers and acquisitions, led last year by Lockheed Martin's $9 billion deal for helicopter maker Sikorsky.

But even as the pie shrinks, the portion of overall military spending captured by contractors has held steady, and in some cases grown. Among the biggest beneficiaries are contractors that specialize in providing services—i.e., boots on the ground. That field is led by privately held conglomerate Constellis, owner of Blackwater (now redubbed Academi) and Triple Canopy. But smaller players, including Patriot Group, are also getting a piece of the action. The Defense Department has been making "a concerted effort to increase share going to small-business vendors," says Greg Sanders, deputy director for research in CSIS's Defense-Industrial Initiatives Group, "and that effort has been paying off."

DRAWDOWNS
DoD spending on contractor services has dropped since 2009



Total nonclassified Defense Department contractor obligations for services only (security, weapons training, intelligence analysis), excluding products (guns, airplanes, etc.) and R&D.
Source: Center for Strategic & International Studies

Selling a Better Night's Sleep

Casper takes the pain out of buying a mattress

As told to LIZ WELCH

BUYING A MATTRESS SUCKS. The salesmen talk fast, the choices (Tempur-Pedic? Visco-elastic memory foam? PrimaCool gel?) are overwhelming, and the prices are hefty. Yet everyone needs a mattress, meaning the $14 billion industry was ripe for reinventing. Enter Casper, the online bed-in-a-box maker that launched in April 2014. The concept was simple: Produce the best mattress possible at an affordable price, sell a single model, and deliver it quickly, for free, with a 100-day trial period. It worked: Casper had sales of $1 million in its first month. The New York City company has since raised $70 million in venture capital, grown to 120 employees, and hit $100 million in cumulative sales. Co-founder and COO Neil Parikh tells *Inc.* about solving the problem of friction beneath the sheets.

Reinventing Sleep

In the beginning, it was "Let's disrupt the mattress industry. It's broken." That quickly morphed into "Let's invent an industry around sleep." My father is a sleep doctor, and I went to a year of medical school. The mattress industry is a racket. You walk into a store expecting a confusing experience, but you don't expect the 35 models offered to be basically the same product with different labels. It's worse than buying a used car—at least there you have data points like horsepower, air conditioning, and a Carfax report. But who knows how many springs are good for you?

After eight months of testing hundreds of mattress types, we learned that people need similar things, like back support, so we decided to make one mattress. Memory foam is super supportive, but it gets hot and it's not very bouncy, so we added a layer of open-cell latex foam, which keeps you cool and adds just the right bounce. We're the first company to put memory foam and latex together and have a patent pending.

Luke Sherwin, Casper's chief creative officer and one of our co-founders, and I lived in a fourth-floor walkup and realized there was no way to get a queen-size bed up our stairs easily. We said, "What if we could compress a mattress to fit into a box the size of a dorm refrigerator?" This way, we can deliver it via UPS so it costs us a 10th of the price to ship. Plus, people can test the mattress in their homes. You have 100 days to try our mattress. If you don't like it, we'll come get it for free. Now, a few companies do this, but not long ago most stores required a several-hundred-dollar restocking fee.

Early on, a couple made a YouTube video about how our bed wasn't exactly right for them but the experience was amazing. That is the goal. Those customers are still going to talk positively about our company and might even buy our sheets and pillows. Our return rate is low, and we try to donate those mattresses to a local charity, which is more cost-effective than taking them back halfway across the country to refurbish and resell.

Catering to Customers

People usually buy a mattress about every eight to 10 years. Most companies don't care who you are—they've made their sale. For us, that's the start of a long-term relationship. Half of our customers talk to someone in-house. The questions are technical, as in "Do I need a box spring?" (No.) "Does it work on this type of bed frame?" (Yes.) We use every conversation to learn something about the customer. We know how long you've had your bed, and if you have kids or a pet. We keep track of all that, and then send people anniversary gifts, or dog beds. It's not about just selling you a bed. It's "How do I make this person our biggest advocate?"

Casper Labs came from that customer database. We have 15,000 customers who are part of our product-development process. They come to events, and test prototypes. Many are obsessive about sleep. They send us sleep tracker data and say, "I tested this product versus this one,

SPREAD FROM LEFT: MAURO FERMARIELLO/GETTY (8) ; VALENTINO WONG/COURTESY CASPER

SPRING AWAKENING

While still small, direct-to-consumer mattress startups like Casper (co-founded by

Neil Parikh, left) are keeping the sleep giants up at night. Mattress Firm, which in November announced it would acquire Sleepy's, making it the largest U.S. mattress chain, has launched an online bed-in-a-box arm called Dream Bed, and it's not the only incumbent to pull a copycat move. Given that in 2014 some 35 million people bought mattresses in just the U.S., many potential converts remain.

600 Number of mattress companies in the United States	**$3 BILLION** Annual revenue of top mattress maker Tempur-Sealy
47 PERCENT of mattresses are sold in mattress specialty stores	**8-10 YEARS** Average length of time people keep a mattress
100+ Number of mattress models sold by Tempur-Sealy **$399–$4,999**	**1** Number of mattress models sold by Casper **$500–$950** depending on size

SOURCES: REFERENCE FOR BUSINESS; TEMPUR-SEALY; CASPER; FURNITURE/TODAY

and here's what I found." That process has helped us build a group of evangelists.

We consider ourselves a tech company first. We've created software that lets us know exactly where our raw materials and mattress components are and how to forecast what and when to build. If the UPS truck is delayed, we can reach out to the customer and say, "Hey, we've been tracking your order and noticed something has gone awry." If you've bought a mattress, instead of having to find your order number, our customer-care expert knows who you are without even asking.

By selling directly to customers, we don't have the same cost structure. We thought about how much we needed to spend on the materials as well as service and returns. There's a psychological barrier around $1,000, and most people spend $500 on their first bed. We had to be affordable enough so they could feel that they could reach up.

More Than Just a Bed

There are many more ways to create an ideal sleep environment. The day after we launched, we started working on pillows and sheets. We questioned how both are produced and then made prototypes. We tried 100 different densities of materials for pillows, including buckwheat, and had customers try many of them. It took 16 months to come up with one pillow that works for everyone. We did a similar process with our sheets and found most people want them to breathe well and last a long time. We've been taught to believe that 1,000-thread-count hotel collection sheets are what everyone wants. It turns out, the more threads, the more filler fiber, which means the sheets are going to sleep really hot. Our perfect balance is 90 threads one way, 110 the other. We haven't decided what the next product is. Customers have asked for everything from lights to sleep trackers. But we do know the category is enormous.

Whole Foods helped shape the healthy-foods movement. We want to do the same for sleep.

GET REAL

Jason Fried

Culture Tweaking

Not every company was born with quirky employee perks and job flexibility. Turns out there's a way to adapt your organization for the modern age

MANY OF THE THINGS we do at Basecamp would be considered unusual at most companies: paying for employees' hobbies, allowing our team to work from anywhere, even footing the bill for fresh fruits and veggies in our staff members' homes.

A common question I get from people at other companies is: "How would you recommend I encourage my boss to do some of the things you guys do?"

Such questions typically come from people low on the organizational chart who feel like they don't have much power. But at a time when the competition to attract and retain talent is fierce, I suspect there are many business owners who are asking themselves similar questions. Some of them, particularly those who started up when the rules of the workplace weren't as malleable, might desire to change their company culture but have no idea where to begin.

My suggestion is to not make an abrupt, formal change from the top down but, rather, to allow change to happen from the bottom up. Give your employees a shot at showing the company a new way, and provide the room for them to chalk up a few small victories. Once they've proved that their idea can work on a limited basis, they can begin to scale it up. Small steps lead to bigger steps. Encourage them to build their confidence and yours, too. If an employee can demonstrate results produced in a way that the company didn't think possible, then a new way forward can begin to take shape.

Take, for example, working from home. At Basecamp, everyone can do this. It's built into our culture. In fact, of the 50 employees at Basecamp, about 35 of them work in cities other than Chicago, where we have our headquarters. Most are in different states; some are in different countries.

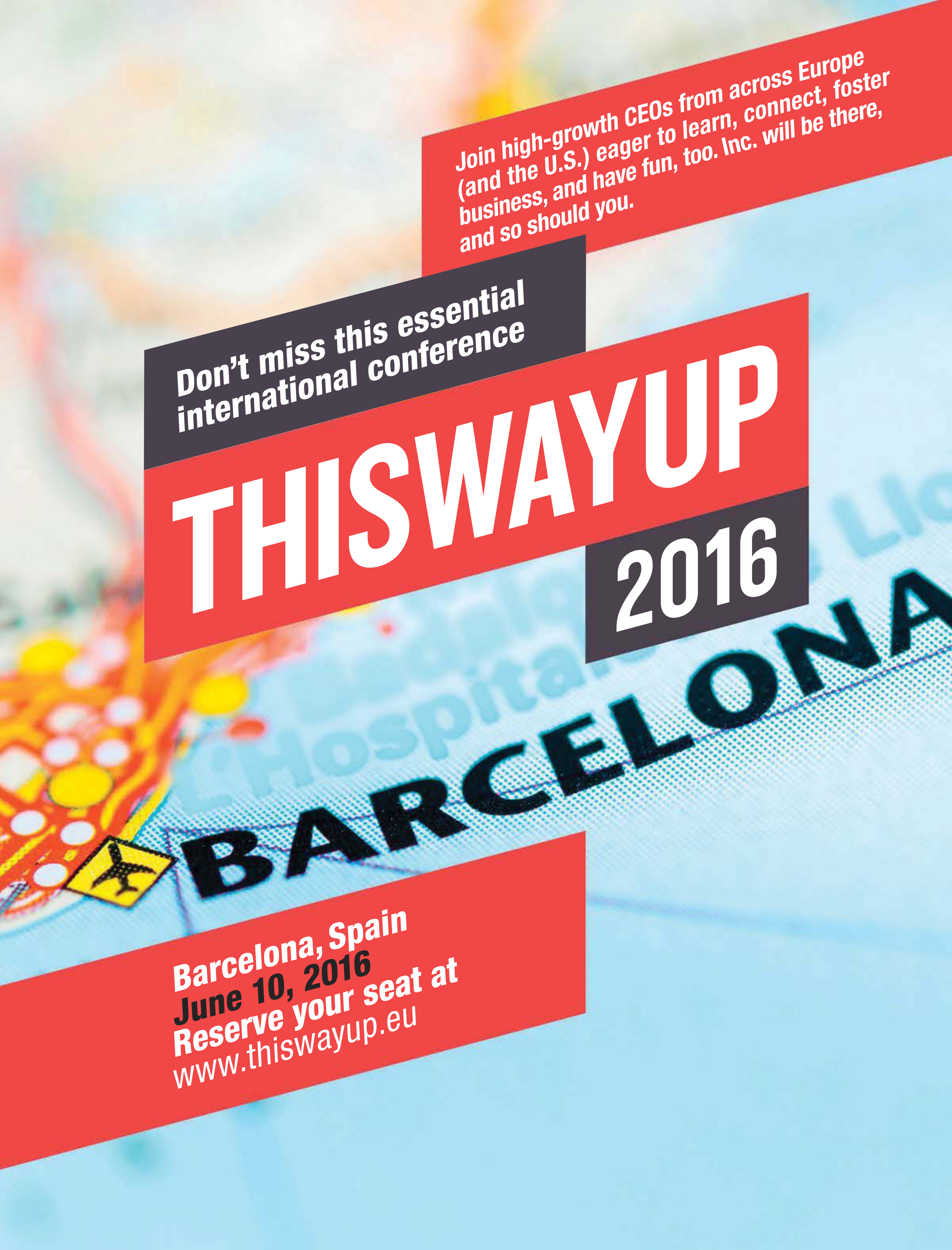
But for a company not used to letting people work remotely, the idea could be terrifying. You might fear losing control over your people, fear that spontaneous collaboration will no longer happen, fear that your company's collective culture will suffer a blow.

Those are fears grounded in the hypothetical. So make changes in the least risky way possible: The next time an employee asks to start working from home, go against your instinct and give her a small shot. How about allowing her a single afternoon each month to stay at home? Maybe the first Thursday afternoon of the month. Let her leave at lunch and work the rest of the day remotely. Let her show you that the sky won't fall, that she can get her work done without physical supervision or proximity to her co-workers. Better yet, let her show you that she gets even more done at home than she does at the office.

Once she has proved it, let her aim higher. Maybe a full day a month, or one day every two weeks. When she proves that works, give her a continuing shot at expanding her request, to a day every week, or a week every month. You'll discover that the more victories she has, the more comfortable you become with the change. Then you begin to think: Maybe we should do more of this! And you let a few more people try it. Then a few more. Next time, you might even allow an employee to go even further outside your comfort zone. And that's how you get your culture to change—in the most mildly radical way possible.

Jason Fried is co-founder of Basecamp (formerly 37signals), a Chicago-based software company.

JEFF SCIORTINO


Join high-growth CEOs from across Europe (and the U.S.) eager to learn, connect, foster business, and have fun, too. Inc. will be there, and so should you.
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▶ THE STEALTHY SALES KINGS OF AMAZON CONTINUED FROM PAGE 39

this?'" Vagenas remembered. "You guys doing $25 million out of this office?"

Vagenas showed him a UPS statement so he could see exactly what kind it was: The shipper was processing 21,000 Pharmapacks orders a week.

Webb and Vagenas connected right away. "Definitely don't record this," said Webb directly into my tape recorder. "But it was like love at first sight."

"Weird as that sounds, he's exactly right," Vagenas said. Webb had barely driven away when Vagenas called his cell phone to propose they work together.

Webb brought business and branding experience, since he'd previously run an ad agency. Webb also had a pertinent family connection. His wife's uncle was the CEO of a distributor based in Ronkonkoma, New York, called Quality King, which is widely regarded as the largest and most successful diverter in the world.

As the tech companies have disrupted retail online, Quality King has spent the past few decades disrupting retail behind the scenes—on trucks, on freighter ships, and through good old-fashioned American litigation. Take, for instance, the 1998 Supreme Court case involving Quality King and a fancy shampoo maker named L'Anza Research. To preserve its cachet, L'Anza made its U.S. distributors sell only to exclusive boutiques and salons at high prices. But L'Anza sold its shampoo more cheaply in Europe, where it was less known. So several tons of L'Anza shampoo intended for distribution in Malta ultimately ended up on a ship headed for Ronkonkoma, for Quality King to sell wherever. (You could say it fell off the back of a boat.) L'Anza sued, claiming a Copyright Act violation, but the Supreme Court ruled unanimously for Quality King: A company buying products on the open market can resell them as it sees fit.

Quality King has been named in more than 50 lawsuits because of its business practices, four times under the RICO Act, the racketeering statute designed to bring down organized crime bosses. Time and again, Quality King walks away, no matter the circumstances. There was the freighter full of Paul Mitchell products that went all the way to China, where much was resold and loaded onto another ship heading to the Netherlands before ending up in Ronkonkoma. There was the con woman who promised to distribute various product samples on college campuses and elsewhere, but sold much of it to the University of Quality King instead. She went to prison; Quality King was untouched.

"Other tech companies—I'm not saying they don't work hard," sighs one founder, "but do you see what we have to deal with?"

And courts continue to rule that, so long as the goods are authentic and the buyers come by them honestly, they can resell them as they please. One frustrated lawyer for brand owners, writing in a legal handbook, referred to the company as the "ever-innocent Quality King." Precedents like these mean that if marketplace sellers find a product for less, they can buy it, list it on Amazon, and get the buy box until they sell out, and there's not much brands can do about it.

In June 2014, Webb and Vagenas teamed up, with Webb and Berkowitz taking an equity position in the company. Quality King is now a supplier, although Vagenas and Webb stress it is only one of Pharmapacks' four major distributors and not its largest—it buys more from suppliers Kinray and H.D. Smith, for example.

But it's easy to see the influence. "We constantly get bombarded by manufacturers saying they want us to take their products off our websites," said Webb. "Before I met these guys, they stopped selling products. They didn't know any better. Now we have a team of attorneys."

The same way the Pharmapacks guys won't divulge the inner workings of their algorithm, they won't tell manufacturers who their suppliers are, to keep them from snooping up the chain. "We don't have to tell brands anything, and we don't want to," said Vagenas. "And, hypothetically, say a distributor cuts us off from a particular item. We'll just go find it somewhere else," said Webb. "You know who it works out for?" asked Vagenas. "The consumer. The consumer's no longer getting gouged."

"IT'S LIKE *BLOOD DIAMOND*!"

With all the pieces in place, Pharmapacks' growth continues to skyrocket. Vagenas just signed a lease on a new, 142,000-square-foot headquarters. Late last year, the company installed robotics and conveyor belts to help package goods, and it can now prepare 50 orders per minute. They are in talks with the grocery-deliverer Fresh Direct, to sell and fulfill orders for health and beauty products on its site. The company is already doing the same for Walmart.com. It is also working with two of its distributors—naturally, Vagenas won't say who—to bring a white-label version of its site to mom-and-pop brick-and-mortar drugstores, so that pharmacies like Vagenas and Tramunti's old one in the Bronx can deliver goods as fast as the big guys. After growing up on Amazon's platform, Pharmapacks is concentrating on its own.

Still, on a recent afternoon, Tramunti was hard at work, sifting through delisted items, checking and uploading each one using the Master Brain. "It's tedious, it's hard, it's a real grind," he said, checking boxes on his computer. "Other tech companies—I'm not saying they don't work hard, but do you see the amount of shit we have to deal with? It's not sexy. It's like *Blood Diamond*! This is our Sierra Leone!" He cracked a wry smile, knowing, as always, that if he ever slips up, two million other sellers are out there, ready to do whatever they can to beat him to the buy box.

—

BURT HELM *is* Inc.*'s senior contributing writer.*

▸
MISSION CRITICAL
CONTINUED FROM PAGE 91

roughly $200,000 from personal savings. (Craddock put in more than the others, and he has more equity.) Rather than start from scratch, they bought Patriot Group—a dormant company that had no contracts, but did have a clean reputation, little debt, a vendor network, and, critically, all the necessary certifications that would otherwise have taken months to acquire.

"We were miserable failures for a good 18 months," says Buford, who became president, "but we just absolutely refused to quit." Whitfield uses a military analogy: "You need to be prepared for your plan not to survive first contact with the enemy." They were not. "Everything we wanted to do, we didn't start doing any of it for three, four years. In the interim, we had to stay alive."

The failures were spectacular and strange. One involved dogs. Patriot Group pursued early on what Craddock calls "a highly specialized canine contract," one he perceived as "close to a lock," and delivered at considerable upfront expense 10 bomb-sniffing dogs, with handlers, to be tested. All 10 failed. "I cannot tell you what a sick feeling that was in my stomach," he says.

Another early bust: manning the security detail for 2012 presidential candidate Newt Gingrich and his wife, Callista. A Patriot Group employee allegedly got into a kerfuffle with a Ron Paul supporter named Edward Dillard at a Florida polling place. According to a lawsuit, the Patriot Group agent blocked Dillard's path and, "when Dillard didn't budge, that individual lifted his heeled shoe over Dillard's right foot"—clad only in a sandal—"and dug the back of it into his skin, twisting it side to side like he was stomping out a cigarette, causing a fracture" to the foot. Patriot Group denied the allegation, and the case was later dismissed, but Craddock learned his lesson: No more campaign work. "We don't like the attention," he says, "and we like getting paid."

Things got worse before they got better. Government lead times can be excruciatingly long, and soon Patriot Group's bank abandoned it, forcing a mad scramble to find a replacement. Craddock spent down his retirement account; Buford dipped deep into his personal savings to cover payroll. A last-minute infusion from outside investors kept Patriot Group afloat, barely. Its big break finally came in 2012, when it inked a long-simmering deal for an intelligence client; revenue rocketed in one year from $800,000 to $11.2 million. It's gone up every year since.

Nearly all of Patriot Group's full-time employees and contract workers are veterans, many of them with at least 20 years of service and a background in Special Forces. That often means they have plenty of employment opportunities. For Craddock, making sure that workers are properly compensated and cared for is time-consuming and costly. Say the bank shuts off an employee's credit card because he happens to be in Libya, and now he has no money. Or he's driving 10 hours off the grid in Nigeria and his GPS fails. These might seem like minor inconveniences, but when your workers are overseas on life-or-death missions, "those are stressful situations for us," says Whitfield.

Patriot Group can't provide lifetime benefits comparable with the military's, but it can pay a lot more. It's not unusual for contractors to earn up to $5,000 a week—for tours that typically last six weeks to six months, followed by unpaid time off—plus top-shelf health and disability coverage. And it can offer what for many veterans is a kind of salvation. When they leave active duty, some have a hard time "trying to function like normal, everyday citizens," says Craddock. "A lot of them are just very sad." Working for Patriot Group is not only more thrilling than what they're qualified to do on the outside; it comes with a powerful shared mission. No need for paintball outings to build a strong company culture.

LUCKY SOLDIERS GO TO FUNERALS. Whitfield has attended 14 in the past three years, all but one for friends who died in combat or succumbed to wounds, physical or emotional, after coming home.

When contractors die overseas—as 3,259 did in Iraq and Afghanistan from 9/11 through 2015, according to the Labor Department—they don't return in flag-draped coffins, to be mourned in public. Their funerals highlight the tensions inherent in straddling two worlds—business and military, private profit-seeking and public service. And they serve to remind those who work in this hidden, flawed, and crucial corner of the economy of the catastrophic cost of failure.

On the cold, bleak winter's day that Patriot Group buried one of its own, Craddock's thoughts turned to his colleague, the one who had called him and then the deceased employee's mother; Craddock wasn't sure he would have had the strength to make that second call. He mourned for the mother, and all the grieving family and friends, for whom Christmas would forever after be a reminder of loss.

And he remembered the victim. He was a grown man, Craddock told himself. He understood the risks and accepted the responsibility, and he was well trained, as prepared as he could have been for nearly any situation. But ultimately, he had died for Patriot Group, as a result of business decisions Craddock had made.

Lots of people have stressful jobs—Craddock knows this—and everybody suffers. He knows this, too: "There is a certain amount of tragedy every single person on the planet has in their life." Still, here it was again, harshly illustrated: the critical difference between "what we do," Craddock says, "and any other line of work. This is serious business."

—

DAVID WHITFORD *is an* Inc. *editor-at-large.*

Franchises Plan for Rapid Growth

by Mark Henricks

Franchise businesses accounted for half of all the jobs small businesses added to the economy during the final quarter of 2015, according to a report, suggesting the industry is poised for an exceptional 2016. The ADP National Franchise Report found franchises added 48,600 employees in the year's final quarter, compared with 95,000 net new hires by all businesses with 1 to 49 employees.

Snap Fitness is one of the concepts leading the way to making 2016 a high-growth year for franchising. The Chanhassen, Minnesota-based chain of fitness clubs will add a new location to its 1,456-unit system approximately every day for the next year, according to Chief Marketing Officer, Steele Smiley.

Franchisees are drawn to the concept because of the way parent company Lift Brands has made it easy for would-be business owners to get up and running, Smiley says. "Snap Fitness offers a fully-integrated process that makes a prospect's entry into our business as seamless as possible," he says.

The Snap Fitness franchise model has met fitness consumers' and franchisees' needs in a wide range of varying conditions. "Our proven concept is effective in any type of market," Smiley says. "Throughout the entire process, the turnkey systems and world-class support we have in place allow prospects to confidently become owners. We also have a special in-house financing program that helps operators get the most from their investment."

Most Snap Fitness locations currently open are in the U. S. "But we have aggressive international development plans in place that will help us grow our global footprint," Smiley adds. "As we continue to grow the Snap Fitness brand around the world, every market is a target."

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Bricks 4 Kidz of St. Augustine, Florida, has more than 650 franchises operating across the U.S. and 42 countries. Franchisees operate after-school enrichment classes, week-long summer camps, birthday parties, and in-school workshops that teach engineering and architecture principles to children by building and playing with LEGO Bricks.

The company employs proprietary models developed by engineers and architects to impart fundamentals of science, technology, engineering, and mathematics to students ages 3 and up. Kids also add to their social abilities by learning teamwork and communication skills, improve motor skills, and enhance their self-esteem. They also learn about organization and how to follow directions using a multi-modal learning scheme.

Michelle Cote, co-founder, says kids, parents, and franchisees all relate instantly to the global LEGO Bricks brand. "Our choice to use LEGO Bricks as the building tool is extremely popular with multi-generational entrepreneurs," she says. Franchisees also appreciate the fact that it is a mobile business allowing a flexible schedule outside business hours. Most classes are held in schools, community centers, and similar facilities, freeing franchisees of the need for physical storefronts.

Also from Bricks 4 Kidz parent Creative Learning Corp. is Sew Fun Studios. Franchisees of this concept also teach principles of design with sewing classes, camps, and parties held during and after school and on weekends and holidays. Home schoolers can use the curriculum, and programs are also tailored for Girl Scout, Boy Scout, and STEM principles.

Sew Fun Studios is a proven business model with a successful seven-year track record. Classes can be held in a variety of locations. Franchisees are trained in the curriculum as well as how to run their businesses with the help of custom software, a website, and a full marketing plan including marketing materials.

Retro Fitness is setting a blistering growth pace, expanding from 109 locations in 2014, to 145 in 2015. "We have had almost a 50 percent growth in club locations, from 75 to 145, since 2013 and have nationalized the Retro footprint into 15 states," says Jason Mattes, chief development officer for Colts Neck, New Jersey-based parent company Fierce Brands.

Franchisees are drawn to the concept's promise of predictable monthly income from membership fees, Mattes says. Other draws include the opportunity to develop multiple revenue centers from personal training, group fitness classes, and the Retro Blends Juice Bar. The concept is flexible, simple, and streamlined and is a manager-driven model so investors can work on the business and not in the business, Mattes says. In addition, extensive corporate support keeps franchisees comfortable throughout the development timeline.

From the consumer standpoint, members at Retro Fitness receive a high-value gym experience at a low cost. "People are watching their pocketbooks and waistlines today more than ever," Mattes says. The state-of-the-art facilities offer memberships for $19.99 per month, with the latest in cardio and weight training equipment, as well as child sitting, tanning, and supplement sales.

Retro Fitness

Most existing Retro Fitness clubs are located in the Mid-Atlantic states, but Mattes says most future growth will occur across the country. Currently, the franchise has locations in multiple outer markets including California, Florida, Illinois, North Carolina, Massachusetts, Michigan, Texas, and Utah. The company anticipates opening another 175 units in the U.S. during the next three years, Mattes says.

SealMaster offers a limited number of protected franchise territories, with only about 14 remaining in the U.S. Territories are large—some encompass entire states. With 35 U.S. territories currently owned, only about 14 manufacturing franchises remain available. SealMaster franchisees manufacture, sell, and distribute pavement sealer and a full line of pavement maintenance products and equipment. Franchisees serve public and private entities charged with maintaining and preserving paved assets. SealMaster is the nation's only one-stop source with retail presence for pavement maintenance equipment and supplies. The franchiser expects its U.S. market to be sold out within three to five years.

With more than 1,400 franchises up and running, Cruise Planners expects to expand at 10 to 15 percent a year, says Michelle Fee, CEO and co-founder of the Coral Springs, Florida, travel franchiser. Key elements of the concept's appeal to franchisees are its flexibility and the well-proven, comprehensive system the franchiser provides


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for supporting franchisees. "The word we use would be lifestyle," Fee says. "It's a work-from-home business. And it's a business in a box."

One of the most valuable assets of Dallas-based HomeVestors of America is its trademarked slogan. "People love the 'We Buy Ugly Houses' concept," says Co-President David Hicks. The company's muscular marketing also supplies franchisees with a steady stream of opportunities to purchase properties, Hicks adds. HomeVestors of America has about 670 locations, up 130 from a year ago, and plans to reach 1,000 within three years.

Murphy Business & Financial has approximately 180 franchised offices with 300 business brokers across the U.S. and Canada, and will open 20 to 30 a year for several years, according to Sandee Devine, vice president of franchise development for the Clearwater, Florida-based parent. Franchisees appreciate Murphy's position as the largest franchised business broker, and they like being able to work from home and tap multiple revenue streams, Devine says.

Franworth leverages the talents of an executive team with a combined 100 years of franchising experience to help franchisers reach their concepts' potential. "We help put together the foundation to scale a franchise with rapid growth, and we have the infrastructure, resources, and tools for the franchiser and franchisee so they can build scalable, lasting brands," says Alex Roberts, chief development officer for the Ann Arbor, Michigan-based company.

One Franworth concept, Title Boxing Club, has 155 fitness clubs, and plans call for 210 this year. Spavia, a Denver-born spa concept, has 10 locations and will have 40 in a year. Ann Arbor coffeehouse Sweetwaters Coffee & Tea has four locations and is launching nationally. Kalamata Greek Grill aims to be for Greek cuisine what Chipotle is to Mexican fare and is rolling out nationwide from two Michigan locations.

Franchisers and franchisees have recently been on the leading edge of growth among small business. If these expansion-minded franchises are any indicator, that leadership position will continue for the foreseeable future.

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Evan Williams

The serial entrepreneur behind Blogger, Twitter, and now Medium has discovered the secret to making his people happy

As told to **LINDSAY BLAKELY** Photograph by **MATT EDGE**

INTERNET SUPERUSER "I'm still an optimist," says Evan Williams, the co-founder and CEO of publishing platform Medium. "We can create a better media world than we've ever seen."

What's the biggest mistake you've made as a leader?
I started my first company before I had had a job in a company, so I knew nothing—and it was a somewhat painful learning process. At first, I looked at management as a necessary evil: "I can't do everything myself, so I guess I'll hire people, and grin and bear it, and do as little managing as possible." It turns out that does not lead to great results. You have to think that your employees are your most important customers, and figure out what will make them happy.

So what makes them happy?
Trust. Lack of trust doesn't necessarily come from people lying and cheating; it generally comes from a lack of good communication. At my first two companies, I would wait until difficult conversations became *really* difficult. I didn't want that to happen at Medium. The most useful thing I've learned is to be open about how you're feeling without being accusatory. If you approach people assuming that you're on the same side, you can collaborate to find solutions.

How do you feel about the state of the internet today?
I used to be much more utopian—and naive. I thought once this amazing, new information utility was at our fingertips, as individuals and as a society we were going to make better decisions. Obviously, that's not been universally true. The rapid dissemination of information means the truth is out there—but so is a lot of BS. It's harder than it used to be to separate the two.

How do you stick to long-term ambitious goals when investors push for faster results?
You have to be aligned about what progress actually means. It's OK for investors to push for results, but if they're pushing for short-term results over long-term, that's where you get in trouble. Progress doesn't always come in the form of big numbers or monetization. While Twitter was criticized publicly for taking a long time to make money, it wasn't criticized by our investors or our board. It wasn't a matter of not knowing how to make money; that just wasn't the most important thing we could do. We were in alignment about that. Then when we did start making money, it ended up working very well.

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